

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2417 SCOMM 101 LONG RANGE FINANCIAL PLANNING COMMISSION, 1995 71

Overall construction employment is projected to decrease by 2.3% during the first five years but to return to 1994 levels by 2004.

D. Manufacturing - Little change is foreseen in fisheries. There is potential for small decreases in employment as owners continue to substitute capital for labor in both harvesting and processing activities (some substitution is assumed during the period from 1999 to 2004). Small growth might occur in the production of specialty products. Species emphasis may change, depending on international fish prices, but overall fishing activity will remain at current levels. The only downside to the industry is the potential for decreased harvests if "Lower 48" treaty obligations are expanded further into Alaska fisheries. Our projections assume this will not happen.

There is potential for increased timber production if log prices remain high (e.g., the resolution of "landless" native claims). Logging and sawmill activities are projected to increase but pulp production will remain below pre-1994 levels. Growth in harvesting and mill production is forecast to increase primarily in the second half of the ten-year period.

Some growth is expected in manufacturing even if there were no change in fishing or timber production. Other small areas of manufacturing such as printing and publishing will account for much of the growth.

Overall manufacturing employment is projected to increase by 3% during the first five years and by 4.2% for the 10 year period between 1994 and 2004.

E. Transportation, Communications, and Public Utilities - Transportation is projected to be one of the strongest growth industries in the Alaskan economy based on assumptions of continued strong growth in air freight activity between Europe and the Orient and gains in tourist related activities. Decreases will occur in pipeline transportation due to the decline in oil activity at Prudhoe Bay, but this will be more than offset by gains elsewhere in transportation.

Communications, a recently declining sector, is expected to experience substantial growth in the first five years due to industry innovation. For the second five years communications is assumed to grow at nearly the same rate as population.

Public utilities is assumed to grow at the same rate as population for the entire 10 years.

Overall transportation, communications, and public utilities employment is projected to increase by 10.7% during the first five years and by 20.6% for the 10 years from 1994 to 2004.

F. Retail and Wholesale Trade - Both retail and wholesale trade are expected to grow faster than the overall economy.

Most of the growth in the first five years of the projection will be in wholesale trade where Alaska continues to lag behind the rest of the country. The growth will not bring us to the same proportion of the economy in wholesale trade as the rest of the country because the low transportation rates to Alaska make it cheaper to warehouse many items outside of Alaska. In the second five years, wholesale trade employment is expected to parallel the growth in the rest of the economy.

Retail trade has recently undergone substantial growth, particularly in large retail operations. Consequently, it will not experience the same growth as wholesale trade. Retail trade will generally parallel the growth in the rest of the economy.

Overall wholesale and retail trade employment is projected to increase by 7.4% during the first five years and by 16.1% for the 10-year period between 1994 and 2004. This is an average growth of 1.5% per year.

G. Finance, Insurance, and Real Estate - These industries are expected to grow at a higher rate than the rest of the economy due primarily to activity in the real estate (mostly land dealings by non-profit organizations and the needs of an expanding population) and banking sectors.

The five-year growth rate for finance, insurance, and real estate is projected at 4.5% and the ten year-growth is expected be 16.5%.

H) Services - Services are expected to grow at or faster than the rest of economy. Several factors will maintain the rapid growth in this sector. Tourism, which is expected to grow more rapidly during this period than any other area of the economy, has the majority of its activities in service related businesses. The impact on service employment is projected be substantial. In addition, overall service levels in Alaska are below those in other areas of the country. This means there should be some growth in this industry from businesses trying to expand their markets in Alaska. Finally, planned health service expansion (hospitals and public health facilities primarily) should also stimulate employment growth.

The five-year growth rate is projected to be 8.9% and the ten-year growth rate is estimated to be 19.0%.

I) Government - Government is expected to decline throughout the ten-year forecast period. Local government is expected to increase slightly during the first five years and to decrease slightly thereafter. The primary reasons why Local government is expected to decrease less than either State or Federal government are educational

expansion and block grants from both the State and Federal governments.

State and Federal government are both expected to decrease throughout the period. State government decreases are primarily the result of decreasing oil revenues. The re-establishment of an income tax is not assumed because the anticipated rate of decrease will be gradual and will not generate sufficient political impetus to bring about the tax. Other programs are such as the Permanent Fund Dividend are likely to be reduced before any tax increase is going to be acceptable. Program reduction will account for part of the decrease in State government employment.

Federal government is expected to decline not only because of the current political climate but because it will be very difficult to maintain the same level of Defense Department activities for the entire period. If the U.S. Congress maintains its current focus on government reductions, cuts could be deeper than the ones forecast.

Overall government activity is expected to decline by 1.0% in the first five years and by a total of 11.8% over the entire ten-year period.

Alaska Wage and Salary Employment					
1994 with Projections to 2004					
Industry Title	AK		Percent	AK	Percent
	1994	1999	Increase 5 yrs	2004	Increase 10 yrs
Goods Producing	38,456	39,700	3.2%	41,000	6.6%
Mining	9,333	10,400	11.4	11,000	17.9
Total Construction	13,000	12,700	-2.3	13,000	0.0
Manufacturing	16,123	16,600	3.0	17,000	5.4
Service Producing	149,678	161,900	8.2	177,000	18.3
Transportation etc.	23,220	25,700	10.8	28,000	20.6
Wholesale trade	8,455	9,300	10.0	10,000	18.3
Retail trade	45,823	48,800	6.4	53,000	15.7
Fin, Ins, & Real Est.	12,021	12,600	4.5	14,000	16.5
Services	60,159	65,500	8.9	72,000	19.7
Government	72,492	72,300	-0.3	69,000	-4.8
State Gov.	21,178	20,300	-4.2	19,000	-10.3
Local Gov	33,264	35,000	5.2	34,000	2.2
Federal Gov.	18,050	17,000	-5.8	16,000	-11.4
Total	260,626	273,800	5.06%	289,000	10.9%
Source: Alaska Department of Labor, Research and Analysis.					

III. Population Projections

Key Observations:

The average annual rate of change during the period 1994-2004 is 1.6%. Natural increase accounts for about 86 to 88 percent of the change, with net-migration from outside Alaska accounting for the remaining 12 to 14 percent of the growth.

Growth of the elderly as a proportion of the working age population will increase. The number of persons over 65 is expected to almost double in the next 10 years, primarily as a result of the aging of the resident population. The proportion of the elderly is expected to rise from 4.5% to 6.0% and will be concentrated in the Urban areas of the state.

Both youth and elderly dependents are expected to increase relative to the working age population. The result is that in 2004, every 100 working age persons will have to support 63 older or younger persons. This contrasts to 55 persons in 1994.

The pressure for jobs will be strongest among younger state residents. To the degree that job growth does not occur, there may be an increase in the out-migration of young adults or a failure of young adults to return to Alaska following college, military service or other out-of-state post secondary training.

Changing job composition may also change the social character of Alaska communities. Decline in the growth of higher pay, higher skill federal and state government employment opportunities in favor of lower paying service occupations fosters a decline in the average education level among younger adults migrating to or remaining in communities.

In and out migration to Alaska is most affected by opportunities in Alaska relative to the opportunities for employment in our key "feeder" states, Washington, California and Oregon and, to a lesser degree, the Mountain States as a whole. One-third of the migration to/from Alaska originates in these three key feeder states and half of our migration originates in the West. Alaska has the highest turnover of population of any "state" except the District of Columbia and Nevada.

Military and their dependents have made up about 10 percent of Alaska's population and contribute to its transient character. By 2004, military and dependent populations may shrink to 6.5% or less.

The population in Rural Alaska is expected to grow more slowly than the Urban and

Bush populations. Of the projected population growth between 1990-2004, 84.2% is in Urban Alaska, 11.8% in the Bush and only 4.0% in the Rural region.

The projected population levels are consistent with the job growth projected, but the disparity is potentially wider 10 years out with growth of the potential labor force slightly larger than the projected employment. It is not possible to adequately research the many factors that lie between population growth and jobs either at the state or regional levels in the time allotted. For comparative purposes, levels of labor force participation and self employment are assumed to be at their 1990 level. Military employment is expected to decline to approximately 19,000 and the level of unemployment is assumed to remain at about 8 percent.

The projection model used is the same one employed in *Alaska Population Projections*, (Alaska Department of Labor, 1991). The low projection case is assumed, since it represents a conservative case for population growth. This case generally assumes growth levels below those historically experienced for periods as long as ten years. "Booms" or "busts" in the economy would affect both the level of migration and fertility assumed. No change in the pattern of deaths from that used in the publication is assumed. New age-specific fertility rates for calendar year 1993 have been used and held constant for the entire 10-year period as an assumed level of births. Net migration for the period averages a gain of about 1,000 persons a year statewide. Projections are computed for the State of Alaska and three regions, Urban, Rural and Bush. In addition, income distributions are shown for the state and regions for 1989. The regions are defined as follows.

Urban: Anchorage Borough, Fairbanks North Star Borough, Juneau Borough, Kenai Peninsula Borough, Matanuska-Susitna Borough, Sitka Borough.

Rural: Aleutians West census area, Denali Borough, Haines Borough, Kodiak Island Borough, Prince of Wales-Outer Ketchikan census area, Skagway-Hoonah-Angoon census area, Southeast Fairbanks census area, Valdez-Cordova census area, Wrangell-Petersburg census area, Yakutat Borough.

Bush: Aleutians East borough, Bethel census area, Bristol Bay Borough, Dillingham census area, Lake & Peninsula Borough, Nome census area, North Slope Borough, Northwest Arctic Borough, Wade Hampton census area, Yukon-Koyukuk census area.

Alaska Household Income by Region, 1989.

	Total	Percent	Urban	Percent	Rural	Percent	Bush	Percent
Total	189,700	100.00%	155,558	100.00%	18,070	100.00%	18,072	100.00%
Less than \$5,000	6,631	3.50%	4,648	2.99%	584	3.23%	1,399	8.70%
\$5,000-\$9,999	9,152	4.82%	6,785	4.36%	852	4.71%	1,515	9.43%
\$10,000-\$12,499	8,156	3.25%	4,625	2.97%	629	3.48%	902	5.61%
\$12,500-\$14,999	5,972	3.14%	4,608	2.96%	566	3.13%	798	4.97%
\$15,000-\$17,499	6,229	3.28%	4,930	3.17%	612	3.39%	687	4.27%
\$17,500-\$19,999	5,900	3.11%	4,795	3.08%	550	3.04%	555	3.45%
\$20,000-\$22,499	6,870	3.62%	5,543	3.56%	694	3.84%	633	3.94%
\$22,500-\$24,999	6,140	3.24%	5,089	3.26%	580	3.21%	491	3.06%
\$25,000-\$27,499	6,952	3.66%	5,593	3.60%	766	4.24%	593	3.69%
\$27,500-\$29,999	6,080	3.21%	5,012	3.22%	554	3.07%	514	3.20%
\$30,000-\$32,499	6,924	3.65%	5,778	3.71%	654	3.62%	492	3.06%
\$32,500-\$34,999	5,917	3.12%	4,855	3.12%	578	3.19%	486	3.02%
\$35,000-\$37,499	6,414	3.38%	5,297	3.41%	668	3.70%	449	2.79%
\$37,500-\$39,999	5,836	3.08%	4,768	3.07%	613	3.39%	455	2.83%
\$40,000-\$42,499	6,529	3.44%	5,359	3.45%	658	3.64%	512	3.19%
\$42,500-\$44,999	5,268	2.78%	4,368	2.81%	513	2.84%	387	2.41%
\$45,000-\$47,499	5,890	3.10%	4,964	3.19%	546	3.02%	380	2.36%
\$47,500-\$49,999	5,185	2.73%	4,338	2.79%	486	2.69%	361	2.25%
\$50,000-\$54,999	10,428	5.50%	8,700	5.59%	1,024	5.67%	704	4.38%
\$55,000-\$59,999	8,235	4.34%	6,795	4.37%	843	4.67%	597	3.71%
\$60,000-\$74,999	21,758	11.47%	18,788	12.08%	1,810	10.02%	1,158	7.21%
\$75,000-\$99,999	20,626	10.87%	17,603	11.32%	1,819	10.07%	1,204	7.48%
\$100,000-\$124,999	7,870	4.15%	6,662	4.28%	737	4.08%	471	2.93%
\$125,000-\$149,999	2,903	1.53%	2,472	1.59%	241	1.33%	190	1.18%
\$150,000 +	3,837	2.02%	3,203	2.06%	495	2.74%	139	0.86%

Source: 1990 Census of Population & Housing.

Alaska Population with Components of Change, 1990-2004.

Period	Population	Change	Average Annual Rate of Change	Births	Deaths	Natural Increase	Net Migration
1970	308,500						
1970-1975	384,100	75,600	4.37%	35,469	7,338	28,131	47,469
1975-1980	419,800	35,700	1.78%	42,980	8,161	34,819	881
1980-1985	543,900	124,100	5.15%	57,469	9,353	48,116	75,984
1985-1990	550,043	6,143	0.22%	59,224	10,509	48,715	(42,572)
1990-1994	606,278	56,235	2.43%	45,885	9,175	36,710	19,525
1994-1999	657,041	50,763	1.61%	57,315	13,642	43,673	7,090
1999-2004	711,900	54,859	1.80%	64,878	16,381	48,497	6,362

Source: Alaska Department of Labor, Research & Analysis, Demographics Unit.

Alaska Population by Age and Region, 1990-2004.

	U.S. Percent	Total	Percent	Urban	Percent	Rural	Percent	Bush	Percent	Total	Percent Urban	Percent Rural	Percent Bush
1990 Census	100.0%	550,043	100.0%	433,710	100.0%	60,238	100.0%	56,095	100.0%	100.0%	78.9%	11.0%	10.2%
0-17	25.7%	172,870	31.4%	133,498	30.8%	17,821	29.6%	21,551	38.4%	100.0%	77.2%	10.3%	12.5%
18-64	61.8%	355,078	64.6%	282,979	65.2%	40,074	66.5%	32,025	57.1%	100.0%	79.7%	11.3%	9.0%
65+	12.5%	22,095	4.0%	17,233	4.0%	2,343	3.9%	2,519	4.5%	100.0%	78.0%	10.6%	11.4%
1994 Provisional	100.0%	606,278	100.0%	478,300		63,900		64,100		100.0%	78.9%	10.5%	10.6%
0-17	26.1%	187,351	30.9%	...		...		...					
18-64	61.2%	391,946	64.6%	...		...		...					
65+	12.7%	26,981	4.5%	...		...		...					
1999 Projected	100.0%	657,041	100.0%	526,734	100.0%	61,560	100.0%	68,747	100.0%	100.0%	80.2%	9.4%	10.5%
0-17	26.1%	190,758	29.0%	149,503	28.4%	16,956	27.5%	24,299	35.3%	100.0%	78.4%	8.9%	12.7%
18-64	61.1%	433,403	66.0%	350,903	66.6%	41,328	67.1%	41,172	59.9%	100.0%	81.0%	9.5%	9.5%
65+	12.8%	32,880	5.0%	26,328	5.0%	3,276	5.3%	3,276	4.8%	100.0%	80.1%	10.0%	10.0%
2004 Projected	100.0%	711,900	100.0%	570,000	100.0%	66,700	100.0%	75,200	100.0%	100.0%	80.1%	9.4%	10.6%
0-17	25.5%	231,500	32.5%	180,600	31.7%	21,600	32.4%	29,300	39.0%	100.0%	78.0%	9.3%	12.7%
18-64	61.7%	437,400	61.4%	355,000	62.3%	40,800	61.2%	41,600	55.3%	100.0%	81.2%	9.3%	9.5%
65+	12.8%	43,000	6.0%	34,400	6.0%	4,300	6.4%	4,300	5.7%	100.0%	80.0%	10.0%	10.0%
Change 1990-2004		161,857	0.0%	136,290	0.00%	6,462	0.00%	19,105	0.00%		1.22%	-1.58%	0.36%
0-17	-0.2%	58,630	1.1%	47,102	0.90%	3,779	2.80%	7,749	0.54%		0.79%	-0.98%	0.19%
18-64	-0.1%	82,322	-3.1%	72,021	-2.97%	726	-5.36%	9,575	-1.77%		1.47%	-1.96%	0.49%
65+	0.3%	20,905	2.0%	17,167	2.06%	1,957	2.56%	1,781	1.23%		2.00%	-0.60%	-1.40%

Source: Alaska Department of Labor, Research & Analysis, Demographics Unit

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STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

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MEMORANDUM

DATE: June 21, 1995

TO: AnnaLee McConnell, Director
Office of Management and Budget
Office of the Governor

FROM: *Karen Perdue*
Karen Perdue
Commissioner

SUBJECT: Long Range Financial Planning Commission
Excise Taxes on Alcohol and Tobacco

Post-It™ brand fax transmittal memo 7671		of pages 13
To <i>Melissa</i>	From <i>Brad</i>	
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The Department of Health and Social urges the Office of Management and Budget to bring the issue of increasing the excise tax rate for tobacco products and alcoholic beverages to the attention of the Long Range Financial Planning Commission. Alcohol abuse and tobacco use are major health problems in Alaska and the department approaches the issue of excise taxes solely from a public health perspective. The Department of Health and Social Services is not responsible for collection of these taxes which are, and should remain, within the purview of the Department of Revenue. Additional revenues generated would be deposited directly into the state general fund.

Department of Health and Social Services Perspective

While recognizing that the increased revenues generated by an increase in excise taxes would help meet the overall budget shortfall, the Department of Health and Social Services believes that the primary benefit of increased alcohol and tobacco excise taxes would be an improvement in the overall health status of the Alaskans.

Should the Commission choose to examine this issue, the department also suggests that the Commission consider mechanisms for sharing a portion of any additional revenues generated with local communities. The State of Alaska currently shares some taxes and fees with local communities to help local governments deal with the impacts or share in the economic benefits of certain activities. One example is AS 04.11.610 in which fees charged for the license to sell alcoholic beverages are appropriated back to the communities where they were earned.

The Department of Health and Social Services is committed to the goal of encouraging and enabling local communities to plan, finance and implement local solutions to health and social problems created or aggravated by alcohol and tobacco use. Sharing alcohol and tobacco excise tax revenues with local governments would provide increased local resources to further this goal.

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Background on Alcohol Use and Taxation:

Alcohol consumption rates are directly linked with health, safety and social problems. Alaska has for many years had one of the highest alcoholic beverage consumption rates in the United States, ranking fourth highest in per capita consumption. Surveys of Alaskan youth provide startling responses. Over 70% of Alaskan students in grades 10-12 report having used alcohol at some time during their lives compared to only 46% nationally. Only 5% of youth 12-17 years of age in the entire United States use alcohol frequently (at least weekly). In Alaska, this level is reached by the seventh grade and peaks at 25% in grade eleven.

The economic costs to the State and business of alcohol abuse is high. In Alaska this cost has been estimated to be as high as \$500 million annually. Nationally it is estimated that as much as \$34 billion of health care costs are attributable to alcohol abuse each year.

Excise taxes on alcohol were last increased in 1983. Per capita consumption declined significantly after 1983 and continued to decline through 1991. Inflation has since offset the deterrent effect of the last tax increase, however, and consumption has begun to rise. Increasing taxes on alcoholic beverages will assist in reversing the trend of consumption and will assist Alaska in obtaining the goal of 2.0 gallons per capita from the current 3.33 gallons as identified in *Healthy Alaskans 2000*, the initiative aimed at improving the health status of all Alaskans.

Background on Tobacco Use and Taxation:

Tobacco use is an enormous health problem. Tobacco kills one out of three users and disables many more. Causal links have been established between tobacco use and a number of chronic diseases including: stroke, numerous kinds of cancers, coronary heart disease, chronic obstructive pulmonary disease, peripheral artery disease, and low birth weight baby risks.

Nearly 20% of deaths in Alaska are smoking related (one Alaskan dies each day due to smoking attributable causes.) The direct health care costs attributable to smoking in Alaska in one year (1991) were estimated at \$45.6 million for persons 35 years of age or older. This is the equivalent of \$220 per Alaskan 35 or older or \$941 per smoker 35 or older. Indirect costs in that same year, including lost earnings and productivity for persons disabled by smoking-related chronic disease or who died prematurely from smoking related causes was \$82 million.

Although there have been dramatic gains in recent decades in the campaign against tobacco smoking, tobacco use among youth continues to be a public health epidemic. Every day more than 3,000 American teenagers become regular smokers.

The Department of Health and Social Services supports increasing taxes on tobacco because increases in tobacco taxes: (1) saves lives; (2) saves money, especially health care costs; (3) generates revenue; (4) is fair; and (5) is popular. Nearly 90% of smokers start smoking by the age of 21 and increasing the price of tobacco has been demonstrated to decrease the number of users, especially among youth.

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Affordability of tobacco appears to be the most important determinant of the number of children who will start smoking. An increase in the cigarette excise tax may be the most effective approach to reducing tobacco use. Teenagers are much more responsive than adults to increases in the price of cigarettes because they have less disposable income and may be three times more sensitive to price increases than adults' consumption. Also children and teenagers are usually less addicted than many adult smokers and, therefore, more likely to be able to stop smoking when prices increase.

The benefits of increasing the tobacco tax will most immediately be seen in the drop in consumption by youth and in the decrease in the number of youth who begin to use tobacco products. Only a very small percentage of tobacco users begin as adults. Reducing the initiation of youth to tobacco use is the most important prevention objective of health professionals. Studies have shown that children and adolescents who start to use tobacco do not understand the nature of tobacco addiction and are unaware of or underestimate important health consequences of tobacco use. Children and adolescents who use tobacco are persuaded to do so through advertising and peer pressure resulting from media images, and because it is readily available as well as inexpensive. Research concludes that higher tobacco excise taxes significantly reduce the number of teenage tobacco users.

Data compiled in the United States, Canada, California, and the United Kingdom indicate that for every 10% increase in the inflation-adjusted price of tobacco, general consumption will fall by about 4% but, more significantly, it will drop by about 10% among youth.

American tobacco taxes are among the lowest percentage of total price of virtually any country in the world. In 1989, California voters approved a citizen's initiative to raise their cigarette excise tax by 25 cents. Cigarette smoking dropped 17% between 1989 and 1991, about twice the U.S. average. In Michigan, on May 1, 1994 the cigarette excise tax was raised from 50 cents to 75 cents per pack. Since then, legal sales of cigarettes have declined approximately 30 percent, and cigarette tax revenue for August 1994 was \$45.9 million, up from \$21.8 million in August 1993.

Conclusion

Alcohol abuse and tobacco use are major health problems in Alaska. Increasing excise tax on these products is a key strategy for decreasing use among Alaskans--particularly among youth. Excise tax increases will also generate additional revenues to the State.

Enclosed are the relevant sections of the state health plan, *Healthy Alaskans 2000*, which provide further information on this subject. If you require additional briefing materials, please don't hesitate to contact my office. The department very much appreciates your willingness to bring this matter to the attention of the Long Range Financial Planning Commission.

Enclosures

cc: Commissioner Condon, Dept. of Revenue
Pat Pourchot, Office of the Governor
Peter Nakamura, Director, Div. of PH
Loren Jones, Director, Div. of ADA

June 6, 1995

**IMPACT OF CAPS
ON FEDERAL SHARE GROWTH RATE
TO ALASKA'S MEDICAID PROGRAM**

Summary

Alaska expects its Medicaid program to grow at a conservative 10.6% each year from Fiscal Year 1996 through 2002. Yet Congress is considering capping the annual growth of federal Medicaid expenditures at 8% for FY 96, 7% for FY 97, 6% for FY 98, and 4% for FY 99 and each year thereafter. These caps on Medicaid expenditures would reduce health care funding in Alaska by approximately \$467 million over seven years. Further, under current law, the caps would end Medicaid payment for all optional services, including long term home-based care and inpatient psychiatric services in five years. Services for medically complex children, and services for some non-AFDC minors will be eliminated by the 7th year. Finally, if reductions are managed by reducing rates paid to providers instead of or in addition to eliminating optional benefits, several rural hospitals may be forced to close.

The following discussion summarizes the potential service and budget impacts on Alaska's Medical Assistance program from growth rate caps. The impacts are based on an expenditure model which projects Medicaid costs:

- over seven years;
- growing at 10.6% each year;
- under current program conditions;
- with no significant facility expansions; and
- proceeding with planned program changes.

A 10.6% growth rate was selected based on historical growth rates ranging between 10 and 20 percent, recent reductions in state revenues, and Alaska's limitations in achieving savings from managed care and other popular cost containment strategies.

Background

Approximately one sixth of Alaska's population - 85,000 people - are eligible to receive Medicaid services. The federal government pays half of program benefits, and 50 to 90% of administrative costs. Overall, federal funds are 51% of expenditures. Administrative costs represent 4% of the Medicaid budget.

In 1994:

70,000 of these eligible Alaskans actually used services, which include everything from prescriptions, to preventive care for children, to nursing home care for the elderly.

From DHSS

Medicaid Cap Impact June 6, 1995

In 1994 - cont'd:

- Alaska spent \$273 million in the Medicaid Program, 50% federal funds; 50% state, as follows.

- nursing home services	18%
- hospital services	31%
- physician services	18%
- prescription drugs	4%
- inpatient psychiatric care	5%
- community mental health	5%
- Early childhood screening and immunization.	2%

Medicaid eligibility is based on income. Children in families receiving public assistance comprise 38% of all Medicaid-eligible Alaskans. However, only 17% of expenditures are made for children. In contrast, elderly Alaskans represent only 6% of Medicaid-eligible residents, but represent 14% of the expenditures.

The Department may limit services so long as the services provided are adequate in "amount, duration and scope" to meet the recipients' medical needs. The medical provider and the patient decide the medical need to be met, and the Department then pays the provider directly. While the Department may set reasonable prices to be paid for services, the payments must be high enough to insure continued access to medical services.

Alaska Statutes

Alaska's Medical Assistance Statute (AK 47.07.035) requires the Department to pay for mandatory services for eligible individuals, as described in federal law. It also lists *optional services and optional groups of eligible individuals* in order, with #1 being the lowest priority and #31 the highest (see attached list, page 5). Under current law, if the state and federal funds together cannot pay for all mandatory and optional services, DHSS meets its budget by cutting optional services, beginning with #1. These optional services are mostly adult-only services, and do not affect care for children, until the end of the list is reached. The state legislature eliminated the first ten services during 1995, and required the Department to institute co-payments by recipients.

Some optional services replace more expensive mandatory services. For instance, experience shows that treatment for substance abuse dramatically decreases medical costs for these patients later on. By eliminating treatment or targeted case management for substance abuse and mental health clients, appropriate needed medical services may not be received, and more expensive acute care services may eventually be required.

Another example is home and community based care for medically complex children, mental health and developmentally disabled patients. Non-institutional long term care, provided at home or in a community clinic, is far less expensive than institutional care, and meets the

Medicaid Cap Impact
June 6, 1995

Department's policy to provide services as close to home as possible. Also, as home based services are strengthened, the state reduces its bed capacity for institutional care. Therefore as the optional services are cut, home-based long term care may be eliminated. This would then require patients to be treated in the more expensive institution setting, which no longer has room for them! Because of these paradoxes, the impacts described here are not precise nor all-inclusive.

Projected Impacts With a 8%, 7%, 6%, 5%, 4% Growth Caps

Given the above assumptions, Alaska's Medicaid budget will experience a cumulative shortfall of more than \$500 million over seven years (see attached table and chart) if the growth of the federal share is capped at 8% in FY 96, 7% in FY 97, 6% in FY 98, 5% in FY 99 and 4% in 2000 and each year thereafter. The impact estimate improves by \$15 million per year by if the IHS Medicaid expenditures are not capped.

The first year will produce an \$4.3 million shortfall which the state may manage by reducing services, or paying for them totally with state general funds. By year three, FY 98, the additional funding (or cuts) needed for one year is \$41 million; by 2002 it is \$164 million.

If the state does not or cannot pay for program growth, all optional services may be eliminated by FY 2001. Given the current fiscal gap, we believe the legislature will not replace these funds.

Optional services eliminated federal growth caps (assume IHS funds are capped):

By FY 98, physical therapy, and half of the personal care services will be cut off.

By FY 99 all prescribed drugs and 2/3 of the home and community-based waiver services are eliminated.

In FY 2000 residential care for the mentally retarded will be eliminated.

During the first quarter of 2002, all optional services are eliminated, including skilled nursing for patients under 21, and home-based services for medically complex children. The remaining six "options" on the list are really eligibility groups, whose costs are captured in the services estimates.

So, ironically, Alaska could have a Medicaid program that moves Medicaid recipients into institutional care - the most expensive kind of health care. Adults who need hospital psychiatric care may not receive it, while children who could be served at home may have to be treated in institutions.

Further reductions to achieve the overall spending reductions will have to be made by adjusting rates for mandatory services.

Medicaid Cap Impact
June 6, 1995

Other Issues

The expenditure model does not address other questions raised by capping or block granting Medicaid which may have significant impact on Alaska, including:

Electronic Data Systems

In question is the federal funding for electronic data systems; the timing on this is extremely important. Alaska is in the process of designing and building a new Medicaid Management Information System (MMIS), as required by the state's agreement with the federal government. The current cost sharing for this systems work is 90% federal and 10% state, for a total cost of \$9 million. The system is to be up and running by September 1997; the department's FY 96 capital budget request includes \$800,000 for the state share of the procurement. Our outstanding questions, then are:

- Will new Medicaid legislation require the same type of data system?
- Will 90% federal funding continue long enough to complete the new MMIS?

Managed Care

Other states are able to project significant savings over time by using managed care as a cost containment measure. However, because so many communities in Alaska are sole-facility or sole-provider communities, this does not present real opportunity for lowering the Medicaid growth rate. Rather, Alaska's Medicaid growth is mostly attributed to medical inflation rate, population growth, and a senior population that is growing at four times the national average. The highest cost of care per person is for the oldest members of the population.

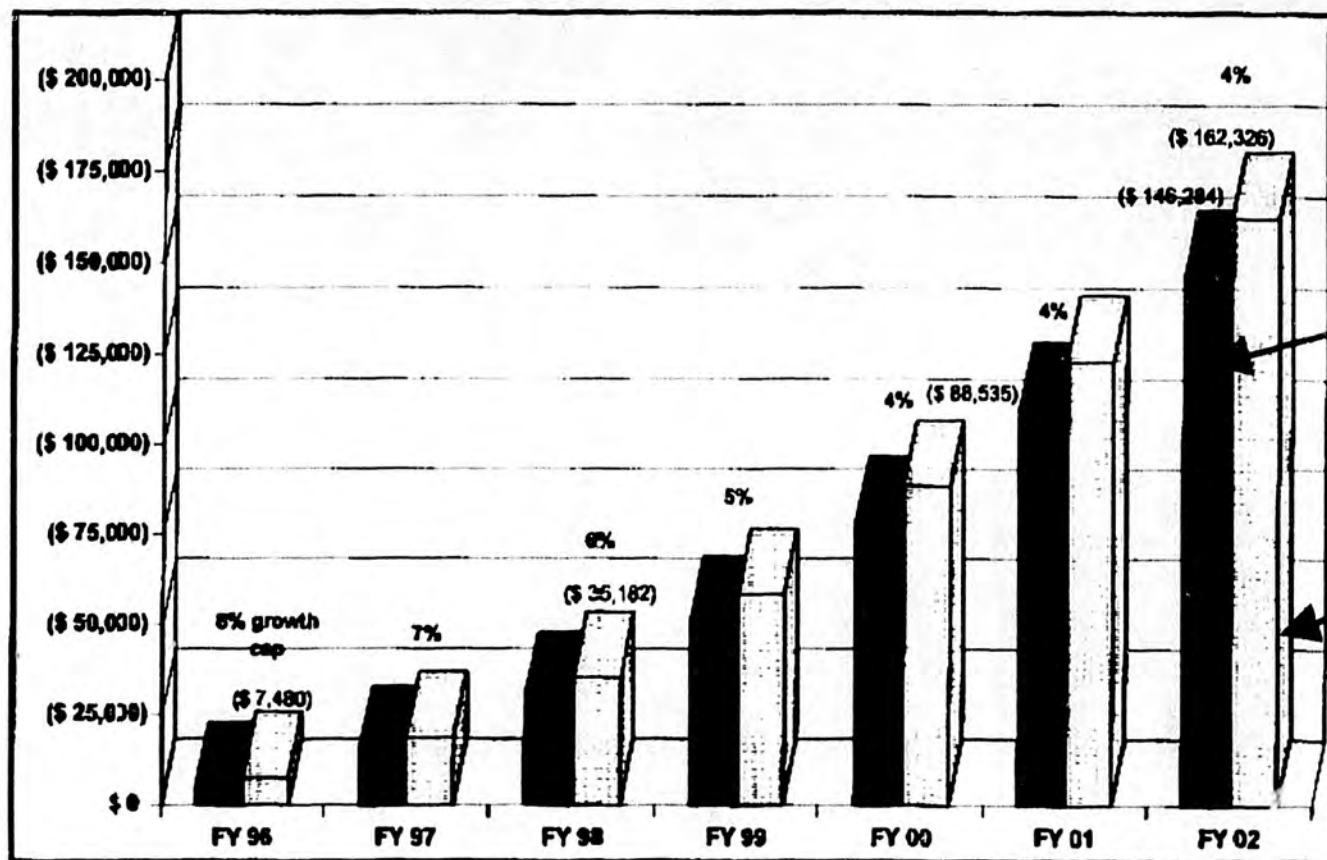
Although Alaska is exploring managed care for mental health, developmentally disabled and substance abuse clients, to ensure the most appropriate and cost effective treatment, we do not believe that managed care will significantly reduce the Medicaid rate of growth.

Boom/Bust Economy and Block Grants

Alaska's dependence on natural resources for its economic health will always produce fluctuations in the population and economy. These fluctuations are felt throughout state and private sectors, especially assistance programs. The flat funding of a Medicaid Block Grant will place significant stress on a state budget during downturns in the economy, requiring a greater proportion of state funding when state government has less to spend. The fact that Alaska's economic swings are frequently not in sync with those in the Lower 48 makes this more frustrating. During periods of increasing need for Medicaid, the federal block grant would create a large cost shift to the state.

Dollars Lost with Medicaid Growth Caps

(amounts in thousands of dollars)



■ Unfunded Costs - IHS No Cap 0

□ Unfunded Costs - IHS Capped 0

Federal, State growth capped - with no IHS cap \$434,133 million unfunded over 7 years

Federal, State and IHS capped \$493,386 million unfunded over 7 years

FY96 - FY02 Medicaid Expenditure Growth Cap Analysis
Department of Health and Social Services
Division of Medical Assistance
(Amounts in thousands of dollars)

BRU/Component	FY95 Authorized	8% FY96 Budget	7% FY97 Projected	6% FY98 Projected	5% FY99 Projected	4% FY00 Projected	4% FY01 Projected	4% FY02 Projected	Total 96 - 02
Medicaid Facilities	125,387.3	145,270	160,869	177,700	198,536	217,369	240,410	265,894	1,403,848
Medicaid Non-Facility	133,892.6	135,333	149,679	165,545	183,092	202,500	223,965	247,708	1,307,820
Indian Health Service	19,822.0	24,433	27,023	29,887	33,055	36,559	40,434	44,720	236,110
Medicaid State Programs	19,385.2	18,946	20,544	21,160	21,795	22,448	23,122	23,816	152,829
Waiver Services	8,881.5	11,248	12,441	13,780	15,218	16,832	18,616	20,589	108,706
Total Medical Assistance	307,368.6	336,231	370,355	408,051	449,697	495,708	546,547	602,724	3,209,313
Net Percent Change			10.15%	10.18%	10.21%	10.23%	10.26%	10.28%	Avg. 10.22%
Current Shares									
State Funds	141,348.1	149,449	165,022	182,239	201,272	222,315	245,579	271,300	1,437,176
Federal Funds	166,020.5	186,782	205,333	225,812	248,424	273,393	300,968	331,424	1,772,137
Shares with Capped Growth									
State Funds Capped	141,348.1	149,449	159,910	169,505	177,980	185,099	192,503	200,203	1,234,648
Federal share - IHS No Cap	166,020.5	182,327	195,970	208,971	221,093	232,118	243,816	256,237	1,540,532
Federal - IHS Capped	166,020.5	179,302	191,853	203,364	213,533	222,074	230,957	240,195	1,481,279
Unfunded Costs - IHS No Cap		(4,455)	(14,476)	(29,576)	(50,624)	(78,491)	(110,228)	(148,284)	(434,133)
Unfunded Costs - IHS Capped		(7,480)	(18,592)	(35,182)	(58,184)	(88,535)	(123,087)	(162,326)	(493,386)

ASSUMPTIONS:

1. 10.6% annual rate of growth in the Medicaid program across the projection period. This very conservative growth rate is used with consideration given to the unprecedented interest in health care spending, trends toward capitation and managed care, and the Alaska Legislature's interest in slowing Medicaid program growth together with its incongruent interest in refinancing state programs with federal Medicaid dollars. The program expenditure growth in the Medical Assistance components therefore continues at 10.6%, unless otherwise noted below.
2. Medicaid State Programs grow by 3% annually. This component funds reimbursable services agreements with other state agencies for Medicaid services, which the Legislature will ensure grows at a much slower rate than the balance of the program. This slightly reduces the 10.6% growth rate.
3. The amount of change to the program continues at the same historical rate. For example, changes in the amount, duration and scope of services offered, both positive (expansions) and negative (contractions) will continue at the same level as they have historically.
4. Growth rate includes modest changes in the Legislature's appropriation levels as well as health care inflation.
5. The eligibility caseload growth will continue at historical rates. For example, it reflects the addition of the next year of children born after January 1983 in compliance with the mandates of OBRA90.
6. No dramatic shifts will occur during the period. Dramatic swings in any one area are not included in the model and would invalidate projections.
7. No other cost shifts are made by the federal government to the state. An example would be if the Indian Health Services no longer provided outpatient hospital care. This model assumes that IHS Medicaid charges are not capped.
8. The Boren Amendment is not repealed by Congress. Additionally, not only is the Certificate of Need Moratorium statute passed; but when released, no new nursing home beds will be constructed.

6/14/95

**Preliminary Estimates
Cumulative Dollar Impacts of HR 4 Over 5 Years**

Funding Loss Estimates			
		5 Year Total	Comment
Title I	Cash Assistance AFDC, JOBS	(\$64,282,800)	Estimates range from \$50 - \$75 million. Level depends on whether or not the federal calculation includes Native JOBS funds. It appears not to include Native funds. However, not clear what is in base, so exact calculation not yet feasible.
Title II	Child Welfare	(\$5,000,000)	Federal estimate. Combines 23 programs; not yet clear what is in the base for each.
Title III	Child Care	(\$7,921,223)	Federal estimate may not include Native JOBS in base calculations.
	Nutrition	(\$40,000,000)	School-based meals, day care meals, WIC
Title IV	Immigrant Provisions	(\$17,225,018)	Legal and illegal aliens ineligible for benefits.
Title V	Food Stamps	(\$37,000,000)	
	Food Stamp Offsets	\$14,000,000	Savings created by reducing recipients in other titles.
Title VI - Social Security Provisions		(\$13,000,000)	Removes eligibility for some developmentally disabled children and adults whose disability is materially related to alcohol or drug addiction.
	Medicaid Cap on Growth Rate	(\$207,874,000)	By 2002 this number grows by \$285,400,000 to (\$493,400,000). This assumes that state also caps its share at federal rate.
Total Federal Funding Loss Over 5 Year		<u>(\$378,383,041)</u>	

Estimated Federal Funding Loss By Program Area Under HR 4							
Federal \$	1994	1995	1997	1998	1999	2000	5-Year Totals
Title I - Cash Assistance Block Grant							
# of Families - FY 94	12,942	13,757	14,455	15,178	15,937	16,734	102,213
# of Children	24,590	26,157	27,495	28,838	30,280	31,794	194,205
Block Grant Allocation ^{1,2}	\$51,669,000	\$51,669,000	\$51,669,000	\$51,669,000	\$51,669,000	\$51,669,000	\$308,345,000
Baseline Funding ³ & Projected Need ⁴ W/O Native	\$51,731,975	\$57,332,000	\$71,023,000	\$73,574,600	\$78,368,000	\$82,320,200	\$372,607,800
Baseline Funding ³ & Projected Need ⁴ W/ Native	\$52,855,451	\$59,309,180	\$72,774,618	\$76,413,349	\$80,234,016	\$84,245,717	\$382,978,861
Dollar Increase (Cut) in Funding ⁵ W/O Native in Base	(\$2,975)	(\$5,663,000)	(\$9,354,000)	(\$11,905,600)	(\$16,699,000)	(\$20,851,200)	(\$64,262,800)
Dollar Increase (Cut) in Funding ⁵ W/ Native in Base	(\$1,186,451)	(\$7,640,180)	(\$11,105,618)	(\$14,744,349)	(\$18,565,016)	(\$22,578,717)	(\$74,631,861)
Funds Reduction Based on Projected Need ⁴	-0.10%	-8.41%	-13.17%	-16.18%	-21.30%	-25.06%	-17.25%
Funds Reduction Based on Projected Need ⁴	-1.90%	-11.02%	-13.17%	-16.18%	-21.30%	-25.06%	-17.25%
Title II - Child Protection Block Grant							
# of Children - Average/year	9,972	10,984	11,904	18,510	19,991	21,590	
Block Grant Allocation ⁶	\$9,000,000	\$9,000,000	\$9,000,000	\$8,560,000	\$8,122,500	\$7,718,375	\$42,389,875
Baseline Funding ⁷ and Projected Need	\$7,639,587	\$9,000,000	\$9,000,000	\$9,499,500	\$10,259,460	\$11,080,217	\$48,839,177
Dollar Increase (Cut) in Funding ⁸	\$1,460,413	\$0	\$0	(\$949,500)	(\$2,136,960)	(\$3,363,842)	(\$4,989,860)
Funds Reduction Based on Projected Need		19.37%	0.00%	-10.00%	-20.83%	-30.36%	-10.22%
Title III - Child Care & Nutrition Block Grants							
Child Care Block Grant							
Avg. # of Families/month - FY 95	1,898	2,076	2,284	2,512	2,763	3,040	
Avg. # of Children/month - FY 95	3,060	3,366	3,703	4,073	4,480	4,928	
Block Grant Allocation ^{1,9}	\$6,757,000	\$6,757,000	\$6,757,000	\$6,757,000	\$6,757,000	\$6,757,000	\$33,786,000
Baseline Funding ^{7,10} and Projected Need ⁸	\$9,907,573	\$9,513,935	\$8,444,682	\$7,598,383	\$7,078,202	\$6,375,012	\$41,708,223
Dollar Increase (Cut) in Funding	(\$2,150,573)	(\$2,566,935)	(\$1,687,682)	(\$939,383)	(\$1,219,202)	(\$1,619,012)	(\$7,921,223)
Funds Reduction Based on Projected Need	-24.14%	-27.45%	-19.99%	-11.05%	-15.29%	-19.32%	-18.99%

End Notes:

1. Source: Federal Funds Information for States, Issue Brief - April 14, 1995 Vol 95-4 and CBO preliminary estimates
2. Federal estimate for allocation is \$63,000 below State's adjusted records (approximately 1%).
State records indicate expenditures of \$63,544,650 for State JOBS only.
Federal Source also uses a 2% reduction for adjustments when state claims against the fixed base are complete. This could be added back in or increased.
Apparently does not include Native JOBS funding of \$1,166,759
3. Includes Benefits, EA, State JOBS, using expenditure data, for a total of \$63.54 million.
Includes federal share of CSED collections which are not transferred to the Feds, but are transferred to DPA and credited to the federal match.
Does not include JOBS care child care funding - this is in Title III.
Includes 0.87% reduction for difference between obligations and expenditures (see 2 above).
Includes 2% reduction for final adjustments between states (see ² above)
4. Historical caseload growth over last 10 years was 7.65 percent
Over most recent five years, average caseload growth rate was 11.76 percent.
This projection assumes modest 5% growth unless otherwise noted.
5. Most federal literature estimates Alaska losses over five years at \$48 million.
6. Have no idea yet what is included in this estimated allocation - whether it is state-only.
Federal and National sources agree on this figure.
7. Includes only State and Native government child care.
8. Federal and national analyses all agree that \$5 million should be expected over five years.

This is prorated over three years FY 98-00 when no growth is accommodated, after initial increase.
9. **May not include Native Child Care set-asides.**
10. State Baseline **includes Native Child Care of \$876000 and Native Block Grant.**
Native and State JOBS Child Care need grew at 25-50% from 94-96;
All other program growth projected at 5% or less per year.

SCOMM

101:63

Dear Fellow Alaskans:

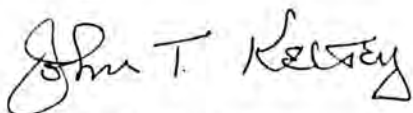
In the fall of 1994, the Alaska Permanent Fund Corporation mailed a short questionnaire to everyone who received a Permanent Fund dividend. We asked you what you planned to do with your dividend checks. We also invited you to tell us: "What does the Alaska Permanent Fund mean to you and/or your family?"

The response was overwhelming. More than 30,000 of you filled out the questionnaire and mailed it back to us. Thank you. We were pleased to hear from so many of you. We were also struck by the very personal impact and significance that these dividends have in your lives.

Two messages came through loud and clear: First, you overwhelmingly support the Permanent Fund. Second, the vast majority of you really appreciate receiving the dividend—and you put it to good use.

We promised you that we would share the results of our questionnaire. This booklet summarizes the responses by various categories and presents a wide spectrum of representative comments from Alaskans from all over the state.

The booklet, along with a companion video, has been produced as part of the Alaska Permanent Fund Corporation's ongoing public education efforts. Its distribution will include the Alaska Legislature, administration officials and other decision-makers, as well as public and school libraries and teachers and students throughout the state.

A handwritten signature in dark ink, reading "John T. Kelsey". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

John T. Kelsey, Chairman
Board of Trustees

'We have saved all Permanent Fund dividends for the last 10 years to fund our children's education at the University of Alaska. Without the dividend, we would not be able to finance their college education.'

'My husband passed away July 11, 1994. So it will come in handy on various things.'

'Dividends represent 1/6 of my family's gross income, without which we would have to join the welfare rolls, or leave bush Alaska altogether.'

'We will go to Mexico for Christmas and help paint an orphanage.'

'It is a leftover from a bygone era. As state revenues decline and we can no longer maintain our state infrastructure, it will become an embarrassment.'

'Much will go to pay for the birth of our last child.'

'The Permanent Fund signifies pride to me. The way Alaska manages its savings account is a model to all other states on fiscal management.'

'I favor capping the dividend at \$500. We have a responsibility to carry our fair share.'

'My job doesn't pay much, and I live check to check. The Permanent Fund Dividend helped pay for some dental work and car repair.'

'I could do without it if it would help the state.'

1. What do you plan to do with your Permanent Fund dividend this year?

- ☐ spend it ☐ save it ☐ spend some/save some

One-third of the respondents planned to spend all of their dividend check.

Nearly two-thirds of Alaskans planned to save at least some of the checks.

One-quarter planned to save all of their check.



'Our family has a rule that whatever we spend the dividend on, it must be spent locally.'

'Every year I've bought something I needed for my home, which is 53 years old. So far I've bought a refrigerator, freezer, couch and swivel rockers, adjustable bed (I'm disabled), dinette set, oil drum, washer and dryer, electric range, carpet, clothes and food. I am a widow of 22 years, 7 months.'

'Dinners out.'

'Of our three dividends, one will be used to pay off a current student loan, a second will be put towards our son's future education and the third put towards retirement and daily cost of living.'

'This year it helped buy windows to finish our addition. We will have light this winter instead of a boarded up hole.'

'I'm four years old. My parents gave me 1% of my dividend (almost \$10!) to spend carefully on what I want. Fifty percent goes to my future education, and 49% goes to living expenses and hopefully a family vacation.'

'I love the Permanent Fund, but I oppose the dividend program. Every year since 1982 I have given 100% of my dividend to charities in Alaska.'

'During the Alaska economic downturn in the late '80s, the dividends literally kept me afloat. Now that I am working steadily, I endeavor to save the money for the next financial downturn.'

2. If you plan to spend some of your dividend, how much will you spend in Alaska?

☐ all

☐ some

☐ none

More than three-quarters of the dividend spenders planned to spend all of their dividend in Alaska.

More than 95% planned to spend at least some of their check in Alaska.

Only 5% did not plan to spend their dividend in Alaska.



'I have received the Alaska Permanent Fund since the beginning and have saved every one. Now I am using the money to pay my own way through college. The Permanent Fund has given me a lot of independence and pride.'

'I am a senior citizen, and I am saving the fund for the time when I will need daily care.'

'It means we can pay our property taxes without going into debt.'

'I believe the dividend should be stopped until the future economic picture for Alaska becomes clearer. Only selfish wimps are afraid to give up a little now when it certainly means a much brighter future.'

'Means a way to pay for health care for those of us who are uninsured and don't qualify for medicaid.'

'My dad is unemployed. This pays bills while he looks for a job.'

'I like the inherent democracy of the system and the way it ensures that all Alaskans benefit directly from our oil money.'

'It is a part of our budget. It pays for fuel to keep us warm, or new tires for the car to keep us safe, college and retirement savings for security, and some years cheap airline tickets to keep us in touch with family.'

'It has allowed me to stay home with preschoolers instead of going to work.'

3. If you are going to save some of your dividend, approximately what percentage will you save?

☐ 10%

☐ 25%

☐ 50%

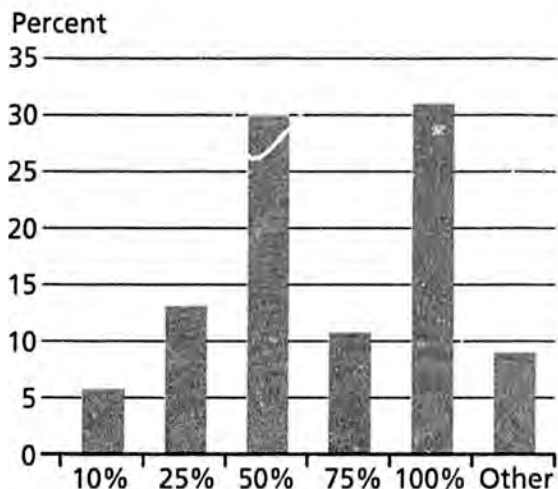
☐ 75%

☐ 100%

☐ Other _____

Of the two-thirds of all respondents who planned to save at least some of the dividend, 31% planned to save all of it.

More than three-quarters planned to save 50% or more.



'My daughter's Permanent Fund is an exceptional way to save for her college education. She was born here in 1991, and we have been saving and investing her dividend for her future.'

'In a normal year, I save the majority of it for retirement. This year, unfortunately, it all goes to a lawyer.'

'The Permanent Fund allows me to share Alaska with others from the Lower 48.'

'Dividends give people a piece of the action and are essential to maintaining interest and a general awareness of the Fund, but should be capped at \$750.'

'Seems a healthy way to recycle dollars in our state.'

'As a retiree and being fortunate to have assets that meet my needs, this money allows me to be more generous in supporting the library, museum, social programs, etc.'

'This year our dividends gave us a chance to take our terminally ill child outside for a vacation, not our quarterly trips to Seattle for treatment! We want him to know what real vacations are like and to enjoy his shortened life. Thank you.'

'It helps us make an extra house payment every year. It means some savings in the bank to help make ends meet when my husband gets laid off in the winter. (He's a carpenter).'

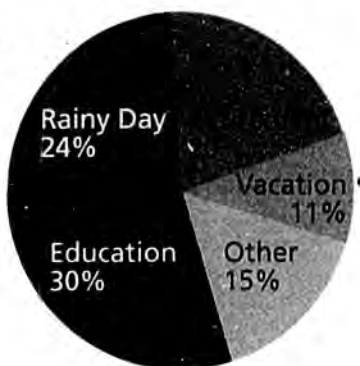
'Every year we travel in the RV to interior Alaska, and the travel expenses for ferries, gasoline and campgrounds come partly from the dividend checks.'

4. If you plan to save some of your dividend, what are you saving for?

- ☐ vacation ☐ education
☐ retirement ☐ rainy day ☐ other _____

Education (30%) was the primary savings goal of Alaskans.

Saving for a rainy day (24%)
and retirement (20%)
were also top choices.



'Cabin fever reliever. Otherwise I'd beat my husband, kick my kid and shoot the dog.'

'Airfares from the village to Fairbanks to visit the heart doctor.'

'A nice windfall at the end of the work season—appreciated more if work was not so plentiful. I would like to see a percentage go to a health plan for all Alaskans.'

'A chance to be independent of my children.'

'It means the University of Alaska system is physically decaying and academically struggling for survival. It means very young children do not get the proper medical care or education/child care.'

'We will be able to spend Christmas with my elderly parents, thanks to the checks and the airline plan.'

'I feel the Permanent Fund says thank you for giving of ourselves to help Alaska be the great state it is.'

'It helps me get closer to owning my own place to live.'

'I am 69 years old. This dividend helps me with my winter electric bills, needed service on my old car and a little something at Christmas for my four grandchildren. I am so very grateful to my state.'

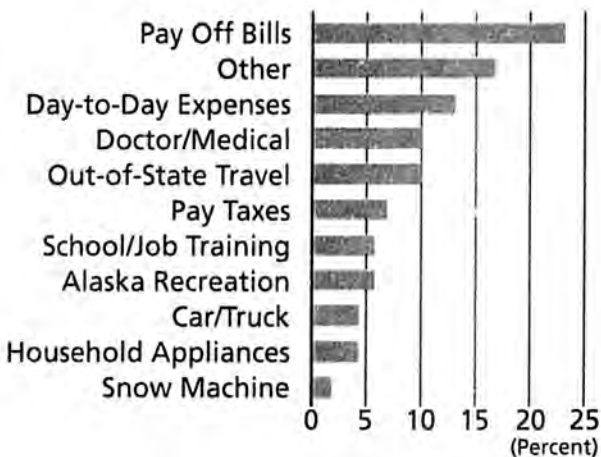
'The dividend means a lot to me. I have been receiving it as long as it has existed. This is money real Alaskans can count on, and I want it protected for our children's future.'

5. If you are going to spend some or all of your dividend, what are you planning to spend it on? (CHECK ONE OR MORE)

- | | |
|---|--|
| ☐ snow machine/three-wheeler/boat/plane | |
| ☐ household appliances (including TV/stereo) | |
| ☐ doctor/medical | ☐ Alaska recreation |
| ☐ out-of-state travel | ☐ pay off bills |
| ☐ pay taxes | ☐ car/truck |
| ☐ school/job training | ☐ day-to-day expenses |
| ☐ other _____ | |

Nearly 45% of dividend spenders planned to pay off bills or meet day-to-day expenses with their check.

10% each cited medical expenses and out-of-state travel.

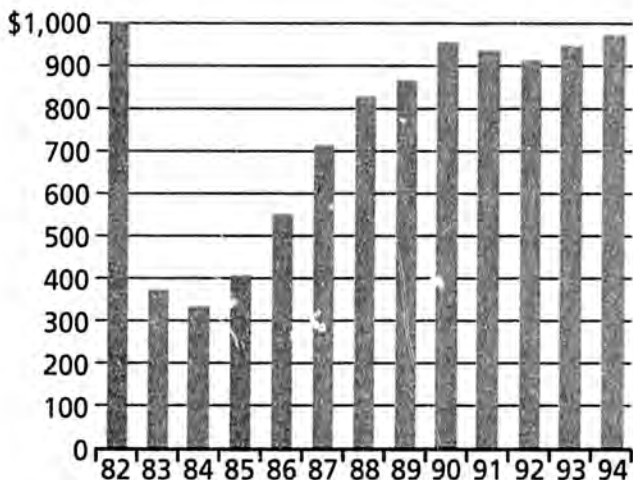


A few facts about the economic impact of Permanent Fund Dividends

- Since its inception in 1982, the dividend program has put \$5 billion directly into the pockets of Alaskans.
- In 1994, \$527 million was paid out to 535,000 Alaskans.
- An Alaska family of four receiving dividends for the past 13 years has received more than \$39,000 in Permanent Fund Dividends.

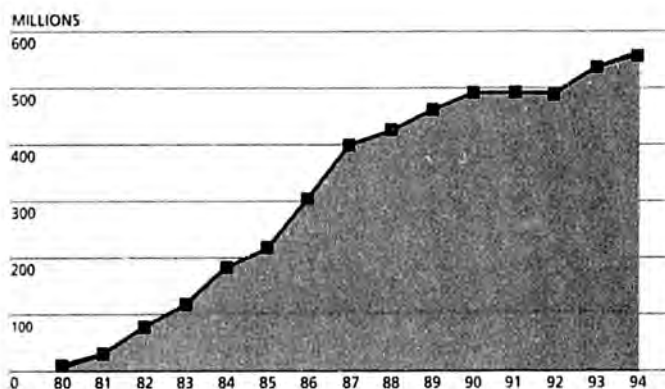
Per capita dividends

Since Inception



- The dividend program brings more new money into Alaska's economy each year than the total payroll of every industry except the petroleum industry and U.S. government spending.
- Dividends make a greater cash contribution than wages paid by construction, fishing, tourism or timber.
- Using a conservative multiplier of 1.5, spending of dividends indirectly creates 13 Alaska jobs for every \$1 million distributed.
- In 1994, the \$527 million distributed as dividends led to the creation of 6,800 Alaska jobs.

Fund income paid out for dividends



'I broke off a visible tooth in July. I am in no pain, but I am very self-conscious about smiling. Without the Permanent Fund, there would have been no way for me to ever afford to have it fixed.'

'With the dividend, I can contribute more to charity and help more people in need.'

'I think it is foolish to have income tax, no sales tax (in some large communities), distribute dividends, pay longevity bonuses and lay off 22 teachers, claim that road repairs are too expensive for us to go on using studded tires, and send Alaska prisoners Outside. We are becoming irresponsible legislators and citizens. Wake up and smell the coffee, Alaska!'

'The Permanent Fund means I get to live in a state I love and still get to see my family in Florida.'

'I live on a very limited income, and each fall it is spent on topping off the fuel tank, tuning the furnace, etc. It greatly lessens the financial burden of winter in Fairbanks.'

'I am three years old, and my parents save my PFD every year to pay for college when I grow up. P.S. My mommy wrote this for me.'

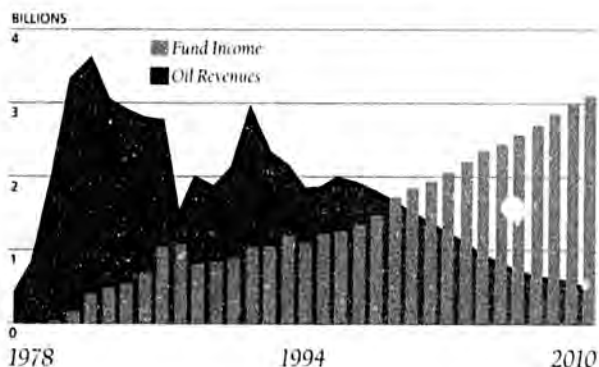
'We look forward to receiving it—but I do feel guilty that we in Alaska contribute so little to the state coffers.'

'We definitely would remain in Alaska with or without the dividend. We arrived in 1961. But I am very proud of our state for the decision to invest and manage this bonanza of sudden wealth so wisely for the benefit of all of us.'

How the Permanent Fund works

- Although Fund principal cannot be spent without a vote of the people, your elected representatives determine how the Permanent Fund's earnings are used. To date, the legislature has basically decided on two uses: dividends and inflation-proofing. In the future they may come up with other uses.
- For now, though, half of the Fund's earnings, averaged over the past five years, are earmarked each year for dividends.
- Inflation-proofing makes sure that our savings account maintains its value over time. How it works is: If inflation eats up \$300 million of the Fund's value in any one year, then \$300 million from that year's earnings go back into the Fund to offset the loss in value. It is a simple program, and it works.
- The assets of the Permanent Fund are managed prudently and conservatively by an independent corporation with its own Board of Trustees.

Permanent Fund income and state oil revenues



Record number of Alaskans want to learn more about their Permanent Fund

The 1994 dividend survey invited Alaskans to learn more about their Permanent Fund by sending for additional information. The 1994 Annual Report; An Alaskan's Guide to the Permanent Fund; Permanent Fund & State Resource Development Timeline Poster; and the CD-ROM Multimedia Guide to the Alaska Permanent Fund were offered to Alaskans free of charge.

For the first time, the Permanent Fund Corporation this year was able to provide its educational materials in either printed form or in an electronic, computer-based format on 3-1/2" diskettes or CD-ROM. The cost to the Corporation of producing and mailing the electronic material was less than for the printed materials.

More than 10,000 Alaskans requested additional information about the Permanent Fund. Of those who asked for publications, a majority asked for their information on diskette (IBM or Mac) or CD-ROM (MAC only), while the rest requested printed information.



This publication was released by the Alaska Permanent Fund Corporation in February 1995. The cost per copy was \$1.22. The booklet was designed and produced by Northwest Strategies and printed on recycled paper by Alaska Printing in Anchorage, Alaska.



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Alaska Permanent Fund Corporation

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Memorandum

DATE: June 19, 1995

TO: Melissa Fouse, Long-Range Financial
Planning Commission

FROM: Jim Kelly, Research & Liaison Officer 

RE: **Material for LRFPC Members**

Melissa, please find attached a copy of the Executive Summary of the "Final Report of the Commission on the Future of the Permanent Fund" dated January 31, 1990. I am forwarding a copy to you at the request of our board chairman, John Kelsey, and would request that you forward it on to your members. It is an important part of the public record regarding the Permanent Fund.

Also, thanks again for placing us at the beginning of the Agenda the other day. Your willingness to accommodate us was much appreciated.

C: Byron I. Mallott, John Kelsey



Alaskans on the Future of the Fund

Final Report
of the Commission
on the Future
of the Permanent Fund

January 31,
1990

The Commission on the Future of the Permanent Fund

Representative H.A. "Red" Boucher, Chair

Representative Terry Martin

Senator Jan Faiks

Senator Steve Frank

**Hugh Malone
Commissioner of Revenue**

**John Kelsey
Chairman, Permanent Fund Corporation**

**Susan Burke
Public Member**

**Lance Parrish
Public Member**

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Professor Clive S. Thomas**

**Editorial oversight and design
Questionnaire analysis
Questionnaire analysis**

In 1989 the Legislature established the Commission on the Future of the Permanent Fund to gather public testimony, report its findings and make recommendations to the Governor and the Legislature.

Executive Summary

The Commission held 10 public hearings between September 30 and December 9, 1989, across the state. More than 200 members of the public and expert witnesses testified. The commission also gathered written testimony and reviewed legislation and documents pertaining to the Permanent Fund.

The public clearly stated it:

- **wants the Permanent Fund dividend retained,**
- **wants the principal of the Fund preserved,**
- **believes current levels of state spending are too high,**
and
- **does not want Fund earnings used to support State programs in the foreseeable future.**

Included in this report are the recommendations of the Commission suggesting statute modifications designed to preserve the value of the Fund and assure a stable flow of earnings.

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The dividend formula	Pages 6 - 7
What the public said	Pages 4 - 8

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Retain dividend program	Page 12
Stabilize real earnings	Pages 12-13
Educational Endowment	Page 13
Clean up statutory language	Page 13
Disclose all uses of earnings	Page 14
In summary	Page 14

Questions facing us today

Since 1986, when the price of oil dramatically decreased, a number of Alaskans have become concerned about fiscal policy, sources of state revenue and the role of the Permanent Fund in Alaska's future. The Commission on the Future of the Permanent Fund was established by the 1989 Legislature to determine the appropriate response to such concerns. The Commission focused on two central questions:

- 1) What is the purpose of the Fund?
- 2) What role will it play in Alaska's long-term economic future?

The Commission was instructed to gather public testimony concerning the Permanent Fund, to report its findings and to make recommendations to the Governor and the Legislature. The Commission consists of nine members: two state representatives appointed by the Speaker of the House, two state senators appointed by the President of the Senate, three members of the public appointed by the Governor, the Chairman of the Board of Trustees of the Alaska Permanent Fund Corporation and the Commissioner of the Department of Revenue.

As part of its charge to gather public testimony, the Commission conducted ten meetings around the state, including two in each judicial district and two statewide hearings that were held in Anchorage and Juneau. To allow as much public participation as possible, the hearings were held on Saturdays. The Commissioners asked the witnesses questions to determine their opinions on specific issues.

The first years of the Permanent Fund

Alaska's voters approved the creation of the Permanent Fund in 1976. They accepted an amendment to the Alaska State Constitution as proposed by Governor Jay Hammond and passed by the Legislature. That amendment states:

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses re-

ceived by the State shall be placed in a permanent fund, the principal of which shall be used only for income producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

—Alaska State Constitution,
Article IX, Section 15

Witnesses asked the Commission questions concerning the Permanent Fund, the dividend program, inflation-proofing, the Educational Endowment, the budget, income tax and long-term fiscal problems facing the state. As a hearing progressed, people commented on the issues presented by previous speakers and thus each hearing became a public forum for discussion of problems facing the state and the Permanent Fund.

As part of its charge to make recommendations, the Commission also heard testimony from the staff of the Permanent Fund Corporation and other expert witnesses, and reviewed documents pertaining to the Permanent Fund.

The Commission also prepared and distributed an eight-page handout about the Permanent Fund and the Commission. The handout contained a three-page, self-addressed questionnaire so that persons who either did not feel comfortable with public speaking or were unable to attend the public hearings could express their opinions. These handouts were used in presentations to high school and college government classes, senior citizen groups, Chambers of Commerce, Rotary Clubs and other civic groups.

(Summary of responses is provided in Appendix A. Copy of handout is provided in Appendix B.)

Since the adoption of this amendment, the Legislature has increased the deposit requirement to 50 percent for all mineral lease rentals, royalties, royalty sale proceeds, net profit shares and federal mineral revenue sharing payments received on leases issued after Dec. 1, 1979, and 50 percent of all bonuses received on leases issued after Feb. 15, 1980. (Alaska Statute 37.13.010 (a)(2))

Additionally, the Legislature provided that a portion of the income of the Fund shall be deposited into the principal to offset the effects of inflation as measured by the change in the calendar year average of the U.S. Consumer Price Index. (Alaska Statute 37.13.145)

The Permanent Fund's principal, estimated to be \$9.3 billion (\$9,267,975,000.00) on Nov. 30, 1989, has come from three sources:

\$3.659 billion had been deposited by that date as a direct result of the constitutional amendment and statutes, \$1.645 billion had been deposited to preserve the principal against inflation and \$3.964 billion had been placed into the Fund by three separate legislative appropriations.

What the public said

Four recurring themes emerged from the testimony of the 223 people who appeared at the Commission's hearings, the 71 people who submitted written testimony and the 1,132 who returned the questionnaires:

- **Retain the Permanent Fund dividend.**
- **Preserve the value of the Fund for future generations.**
- **Reduce state spending.**
- **Do not use Fund earnings in the foreseeable future to support State programs.**

Here is a summary of the testimony on these and related subjects:

Protect the principal of the Permanent Fund

While a few people testified that the Fund's principal should be divided equally among current Alaskans, the large majority supported protecting the principal. There was little support for the use of fund principal for in-state investments, economic development, infrastructure, or other non-income producing projects. The public believes that the current investment scheme and management style have performed well and are appropriate for the future.

The testimony received by the Commission was strongly in favor of preserving the value of the principal for future generations. Few citizens testifying were aware of, or recognized, the possibility that the Fund may not be fully inflation proofed in the future. When asked whether the

The Fund has earned \$6.6 billion

Since its inception, the Fund has earned roughly \$6.6 billion from investments. \$2.2 billion of this has gone toward payment of annual dividends to every qualified Alaskan resident. Of the remaining \$4.4 billion in earnings, \$1.645 billion has been deposited into the principal to offset inflation, \$1.264 billion has been deposited back into the Fund by the Legislature by special appropriation, \$635 million is currently being

held in the Earnings Reserve Account and \$232 million has been used for general governmental services.

While individual voters' opinions may have varied, testimony before the Commission indicates the most often expressed reasons for establishing the fund were:

- 1) to remove money from the income stream of the state,

dividend/inflation proofing priority should be reversed, the response was generally "yes," even if this change causes a reduction in dividend payments.

Keep the dividend program

The dividend program had very strong support from the people who testified. They presented a variety of reasons why this program is valuable. Some favored the dividend program because of the annual injection of capital into the Alaskan economy, others thought that the program is a fair method for the distribution of oil wealth, others thought it is an excellent method of removing funds from legislative overspending, and still others believed it is constitutionally mandated (it is not). They said the bush and rural communities depend heavily on the dividend for infusion of cash into their economies. Many said they would rather see a personal income tax than a reduction in dividends. A limited reduction in dividends is acceptable to fully inflation proof; otherwise, the public expects the dividends to continue. A number of people thought that capping the dividend was an appropriate step in the future.

Reduce government spending

Most people who testified concerning the level of government spending felt that it was excessive. Opposition to the use of the Fund's earnings for additional government spending was widespread. There was strong support for adequate funding for legitimate government services. However, the public believes that the current budgetary

-
- 2) to preserve a portion of the oil wealth for future generations and
 - 3) to develop an income source to support state government when oil revenues decrease.

In 1982 the Legislature enacted the statute that established the Dividend Fund within the General Fund. (Alaska Statute 43.23.045)

The Earnings Reserve Account was established as a separate account managed by the Permanent Fund Corporation. (Alaska Statute 37.13.145)

Each year, about 50 percent of the income from the Fund is divided by the number of qualified applicants and a dividend check is mailed to each person. The amount of this check for the year 1989 was \$876.13.

The remaining income is first reinvested into the principal to offset inflation; the amounts left over are held in the Earnings Reserve Account (ERA). The \$635 million in the ERA as of June 1989 has accumulated over several years.

level of approximately \$2.25 billion is too high. Few citizens were willing to specify which areas of state government should be reduced. Most agreed that it is up to the Legislature to determine the appropriate places to cut.

Opinions differ on educational endowment

The Commission has difficulty in summarizing public testimony about an educational endowment because of confusion surrounding it. While the educational community and some local governments strongly favored the concept of an educational endowment, similar support was not found in the general public's testimony. Opposition to the educational endowment was expressed in a variety of philosophical and political terms.

Many people do not think that the state should tamper with the prohibition against dedication of funds contained in the State Constitution. (Alaska State Constitution, Article IX, Section 7.) These people stressed that all potential uses of the earnings should compete equally with all other government demands or were concerned that dedicated revenue will result in less oversight of educational spending. Some people feared that providing additional funding for education will cause the cost of other government services to rise simply because of the availability of money. Others feared that any change to the constitutional provisions will open a floodgate of other demands on uses of the Fund's earnings.

Many people were critical due to current frustration with the education system. These people stated they were dissatisfied with the quality of education considering the

The Dividend Formula

The actual amount of income which is distributed as dividends is calculated based upon the following language:

Net income of the corporation shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals 21 percent

of the net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed the net income of the corporation for the fiscal year just ended plus the balance in the earnings reserve account . . .

-- A.S. 37.13.140

Once the income has been determined, the amount that goes to the dividend account is established

amount of money that is currently being spent. They were not convinced that a higher spending level or dedicated funding would improve the quality of education in the state.

Those favoring the educational endowment did so because they felt it was important to have a more stable and predictable state contribution to local education costs. Presentations by the Administration demonstrated that the educational endowment will provide only a portion of the money needed for education in the future. As currently structured, neither the Governor's nor the Legislature's bills will create as much money in real dollars as is currently being spent on education.

Don't alter Fund management

The public is satisfied with the current management of the Permanent Fund Corporation and the Board of Trustees. There was generally no demonstrated support for changing the investment philosophy of the fund. However, outside of those intimately involved with the Permanent Fund, few in Alaska have any in-depth knowledge about the specifics of the Fund's operation. Those who do have that knowledge, including members of the Fund's management team, have concerns that the treatment of unrealized gains and losses, definition of net income, and other accounting and investment-related subjects have a substantial effect on the size of the Fund and the distribution of earnings.

as follows:

... each year the commissioner [of revenue] shall transfer to the dividend fund 50 percent of the income of the Alaska permanent fund earned during the fiscal year ending on June 30 of the current year available for distribution.

--A.S. 43.23.045(b)

the dividend account is accomplished by a legislative appropriation. The amount appropriated is based on a five-year average which is intended to maintain a stable flow of dividends.

The actual transfer of funds to

Don't deduct from dividends

This year, the deductions from the dividend program and the purposes of those deductions were itemized on the dividend checks. All witnesses who mentioned this were upset by the subtraction from their check. While most did not complain about the deduction for the costs of administering the dividend program, the deductions for the hold harmless program, felon gate money, sexual offender programs and the Victims Compensation Fund were highly objectionable in the public's view.

Refine dividend qualifications

Public testimony was clearly in favor of restricting the dividend program to qualified residents. Some favored significantly increased residency requirements. However, a number of people expressed concern that efforts designed to prevent unqualified residents from receiving a dividend had the effect of denying dividends to some Alaskans who should receive them. Others were concerned that the additional reporting procedures imposed substantial burdens on all Alaskans and questioned whether these additional burdens and attendant administrative costs outweighed the benefits.

Hearing Locations	Juneau, September 30, 1989
	Barrow, October 7
	Anchorage, October 14
	Bethel, October 21
	Ketchikan, October 28
	Nome, November 4
	Kenai-Soldotna, November 11
	Fairbanks, November 18

Statewide hearings were:

Juneau, December 2
Anchorage, December 9

Findings and Recommendations

The legislation creating this Commission requires a report containing findings and recommendations. While not all members of the Commission may agree completely with all of the statements below, it is the consensus of the Commission that every recommendation addresses one or more issues critical to the future of the Fund and deserves consideration by the Governor and the Legislature.

What is the purpose of the Fund?

Article IX, Section 15 of the Alaska Constitution contains several key concepts:

- (1) At least 25% of designated mineral revenues shall be placed in a permanent fund,
- (2) The principal of the fund shall be used only for those income-producing investments specifically designated by law, and
- (3) All income from the Fund shall be deposited in the general fund unless otherwise provided by law.

The Commission examined the question of what is the purpose of the Permanent Fund, taking into account the public testimony, laws, past and current uses of Fund earnings, historical information and other relevant factors.

It is the Commission's conclusion that the Permanent Fund should continue to fulfill its constitutional purpose of creating a stable and growing stream of earnings to be appropriated by the Legislature. It is the Commission's unanimous opinion that this flexibility, as provided by the constitutional amendment creating the Permanent Fund, allows the Fund to best serve both current and future generations of Alaskans.

Plan now for the "fiscal gap"

The projected decline in Alaska oil production and the corresponding "fiscal gap" between spending and projected revenues was a major factor in the formation of this Commission.

The Commission received substantial testimony predicting a marked decline in Alaskan oil production within the next five years. There was no testimony or information presented contradicting these projections. While fluctuations in oil prices have and will continue to affect year to year revenues, it is highly unlikely that the revenue drop linked to the projected production decline could be offset by oil price increases. This is the basis of the projected difference between current spending and projected revenue that is often referred to as the "fiscal gap."

Public testimony was consistently strong in supporting a substantial cut in spending as the first and preferred method of dealing with this projected shortfall. Many members of the public suggested that, after spending has been reduced, income taxes should be a source of revenue. Some suggested reduction and a few proposed elimination of the dividend program.

While Alaska's economic future cannot be discussed without consideration of the role of the Fund, it must be noted that all of the Fund's real earnings are less than the current state budget. The Constitution prohibits spending the principal of the Fund for any purpose. Constitutionally the Legislature can appropriate all the earnings of the Fund without consideration for inflation proofing. However, if it is to be "permanent," the Fund must retain the value of the principal over time. To retain its value, the principal must be protected from the effects of inflation. Allowing inflation to erode the Fund would effectively produce the same result as spending the principal.

Unless spending levels are cut and/or additional revenues are raised, pressures may arise in the future to use earnings of the Permanent Fund to support state government, possibly even at the expense of the dividends and inflation proofing. The projected fiscal gap thus raises serious public policy issues that must be addressed by the Governor and the Legislature if the current uses of Permanent Fund earnings are to be maintained.

In the Commission's opinion, long-range planning is the only way to avoid having the resolution of these fiscal policy issues dramatically affect the economy or even precipitate a crisis. Planning combined with judicious changes in public policy should reduce the impact of these projections and avoid the wild

economic fluctuations we have historically endured. Unless the Governor and the Legislature address these issues now, a crisis appears inevitable. If the "fiscal gap" does not appear, it will be far easier to live with having planned for the worst than it would to respond to a fiscal crisis without the benefit of planning.

Recommendation: The Governor and the Legislature should initiate a process of long-term fiscal planning and take the necessary action to implement it.

Preserving the value of the Permanent Fund

The Constitution prohibits spending the principal of the Permanent Fund. The Constitution also specifies all investments of the Fund must be "income producing". State law invokes the "prudent investor rule" to assure reasonable and prudent investment of the funds. This is generally accepted as precluding investments in social or infrastructure programs. Statutes further define the type of investments allowed. All earnings of the Permanent Fund are subject to appropriation by the Legislature. The Legislature has provided through statute for the current dividend and inflation proofing programs.

According to expert testimony received, the method of inflation proofing adopted by the Legislature in 1982 will probably fail to protect the Fund principal at some point in the future. Under current practice, dividends are paid before any earnings are added back into the principal for inflation proofing. Since the dividend program formula requires more than 50% of Fund earnings, if the percentage of income needed to offset inflation exceeds 50%, there will be a shortfall in inflation proofing. The present statutes do not allow a shortfall occurring in one year to be recovered in following years nor do they allow for counting unrealized capital gains or losses toward inflation proofing. Failure to inflation proof the fund results in favoring current Alaskans over the future generations. Public testimony clearly favored the concept that current and future Alaskans should benefit equally from the Fund.

Recommendation: To resolve this issue the Legislature should reverse the priorities to give inflation proofing first call on earnings, recognizing that adjustments in the averaging periods and the definition of earnings must be made at the same time. The Commission considers this a necessary first step, but an incomplete solution. More comprehensive solutions are offered under the section "Stabilize the Real Earnings of the Fund".

Retain the Dividend Program

The public overwhelmingly stated that the current economic and social benefits of the dividend distribution program outweigh the need to use Fund earnings for government expenses. Even those who mentioned or suggested use of the earnings to offset falling revenues wanted government spending cut dramatically before any changes were made in the dividend program.

Recommendation: In retaining the dividend program, the Legislature should amend the statutes to assure it does not appropriate for the dividend program more than the real earnings of the Fund. Real earnings would equal total returns, including capital gains/losses if desired, less an amount sufficient to offset inflation. A payout floor, cumulative inflation proofing, modification of the averaging formulas or some alternative method should allow the payout to be averaged over time, thus producing a relatively predictable stream of funds.

Stabilize the Real Earnings of the Fund

Several individuals proposed changes intended to better define the investment goals and strategies of the Fund. Each proposal contained the consistent objective of creating a stable flow of real earnings from the Fund.

One proposal would change the management philosophy of the Fund to a payout rule similar to those used by a number of large endowment funds. This would establish a clear earnings goal for the long term, removing many of the current pressures to use short-term goals and allow a long-term investment policy.

Recommendation: The Commission urges the Governor and the Legislature to give timely consideration to the "payout rule" concept.

Another proposal advocated placing all resource revenues directly into the principal of the Permanent Fund and using the real earnings of the Fund as a substantial source of state revenues.

Recommendation: This innovative proposal warrants consideration by the Governor and the Legislature.

(A more detailed discussion of the payout rule and resource revenue proposals is contained in Appendices C and D.)

Disclose all uses of Fund earnings

The public indicated the dividend program should continue to be an equal distribution to all qualified Alaskans. Testimony was clear that reductions from the dividend checks, other than expenses directly associated with the administration of the dividend program within the Department of Revenue, are not acceptable. There was virtually no support for the "hold harmless", felon gate money, or sexual offender programs being funded from Fund earnings. Many individuals were upset to discover that reductions had been made in the past without being itemized on the check stub. Public testimony strongly suggested that reductions, other than inflation proofing and administrative expenses, should be eliminated.

Recommendation: All uses of the earnings of the Fund should be shown on the dividend check stub by listing the total amount of each use.

In summary

The Permanent Fund is only one element of Alaska's economy. For example, it is not, of itself, the answer to diminishing state revenues. The Fund must be considered and utilized in the context of a total revenue and spending plan. The Commission hopes that this report will help in shaping such a plan and that the public will continue to be recognized as a key participant in the process.

Appendix C

Protecting the Integrity of the Fund

AS 37.13.020 provides for the following goals for the Fund's investments: benefits for all generations of Alaskans, maintaining safety of the principal, maximizing total return, and providing for maximum use of disposable income. The statutes do not rank these goals in any order of priority and they tend, at times, to operate at cross purposes.

This leads to the following problems:

- 1) Existing state statutes provide that net income "Must be computed...in accordance with generally accepted accounting principles, excluding any unrealized gains or losses." This computation does not measure the total return on the Fund.
- 2) Subjecting each year's income to appropriation destroys the averaging concept that is called for in the statute.
- 3) Putting "income available for distribution" at a higher level than the average net income itself is fundamentally inconsistent.

These problems are combined with the difficulties in protecting the principal of the Fund from inflation under the present law.

This situation creates confusion over what the potential of the Fund to produce earnings really is. It increases the chance that Fund principal will not be preserved over time. It puts the Fund managers at a serious disadvantage in optimizing investments.

The problem to be solved is how to (1) preserve the real value of assets placed in the Permanent Fund, (2) pay out good, consistent earnings, and (3) not disrupt or distort investment decisions in order to achieve (1) and (2).

One solution is a payout rule, developed at Harvard in the 1960s and since adopted in one form or another by various endowments and trusts. In its simplest form, a payout rule involves spending or "paying out" each year a percentage of the market value of the assets. Market value is averaged over a number of years to provide stability in the "payout".

The percentage paid out should be no more than the long-term real earnings of the Fund on a total return basis; that is, the increase in the value of all funds under management, including interest, stock dividends, other cash receipts and net capital gains and losses, both realized and unrealized.

Determining the specific percentage for a "payout rule" would involve a decision on the risk-versus-return by the Legislature.

Advantages of the payout rule approach are that it is clear, simple and consistent with a long-term investment strategy.

Appendix D

Stabilizing a resource-based economy

The Constitution states that at least 25% of certain non-renewable resource revenues will be placed directly into the principal of the Permanent Fund. By statute, the Legislature increased this to 50% after December 1, 1979, for lease income and after February 15, 1980, for bonuses. The balance of all resource revenues flows directly into the general fund for appropriation by the Legislature.

The Commission heard substantive testimony regarding a proposal that would result in all revenues generated by non-renewable resources being deposited directly into the Permanent Fund. All earnings of the Fund would continue to be appropriable by the Legislature as under current statutes.

This would have the effect of stabilizing the flow of revenue into the general fund over time and thus would indirectly protect Alaska's economy from the wild boom and bust cycles historically tied to our non-renewable resources such as gold and oil. Given another "oil boom", such as we may see from the proposed gas pipeline, the Fund could conceivably grow to a size capable of producing earnings that could support a substantial portion or even all of state spending.

Until such time, the Fund earnings, renewable resource revenues, and taxes would continue to fund the state.

While this proposal would have been completely painless to implement prior to the current oil boom and the concurrent increases in state spending levels, it would be very difficult to implement now without a carefully considered and implemented transition plan. Such a plan would undoubtedly have to rely upon a combination of reducing spending and anticipating (waiting upon) a future "boom".

Alaskans would have to weigh their commitment to the long-term goal of stabilizing the economy of Alaska against the short-term difficulties in implementing this concept. This proposal also assumes non-renewable resources should benefit both current residents and future generations.

A successful transition to this concept would remove substantial elements of doubt and uncertainty regarding future state revenues and the health of Alaska's economy.

SCOMM

101:64



FISCAL • NOTES

A BUDGET UPDATE FROM THE ALASKA STATE CHAMBER • ISSUE #11 • June 21, 1995

Long Range Financial Planning Commission: Plotting Alaska's Fiscal Future

Last February the Legislature created the Long Range Financial Planning Commission. The commission's task is to recommend a long term strategy to bridge the ever increasing gap between the state's recurring revenues and the amount spent each year to fund state services. *(The gap for the fiscal year that starts this July 1 is nearly \$700 million. It is being filled by nearly \$500 million from the Constitutional Budget Reserve Fund which consists of one-time funds from settlement of disputed oil and gas taxes. The balance is from "dividends" paid to the state's General Fund by two state corporations, AHFC and AIDEA, and user fees.)*

Chamber Priority

Closing the fiscal gap continues to be the State Chamber's top priority. It actively supported the commission's creation

as a mechanism to develop solutions that will ensure Alaska's future includes economic stability.

Work Underway

The commission's 15 members were

appointed by the Governor, and Legislative leadership and include legislators, governor's staff, and public members. Brian Rogers, former legislator and past University of Alaska Finance Vice President, is chairing the commission. *(Members and contact numbers are listed on page 2.)*

The commission has an extremely short time frame to complete its assignments. With its first meeting only held in mid-May, its final report is due to the Governor and Legislature by October 1, 1995. In addition to developing a sustainable long-range financial plan for the next three, five, and ten years, the commission is also directed to:

- Review and evaluate previous fiscal policy recommendations other organizations have made.

- Evaluate all current state income sources, prioritize systemic changes to stabilize the state's revenues, and identify and prioritize new revenue sources.

- Identify and prioritize major reductions in state expenditures.

- Evaluate forward funding of the budget and other budget process changes.

- Evaluate the impact of a long-range plan on state and local government responsibilities.

Work Plan

The commission has meetings scheduled throughout the summer and early Fall *(the summer's meeting schedule is on page 2)*.

Much of the committee's work is being done by the following subcommittees which will make recommendations to the full commission: Expenditures, Public Outreach, Revenue Sources, Budget Process and

Reserves, Intergovernmental, and Report Style and Drafting. Public hearings on its draft report (to be completed by late August) will be held the week of September 11 throughout the state.

Editor's Note: "Fiscal Notes" will continue publication during the Summer and Fall to cover the work of the Long Range Financial Planning Commission. Plans for late 1995 and 1996 are to continue coverage of budget work by the Governor and Legislature. Comments, suggestions, and questions about issues of interest to you continue to be welcomed. Please contact the Anchorage office of ASCC at 278-2722.

The Nuts and Bolts of the Commission's Process: Members, Schedule, and Subcommittees

Commission Members

Chair:			• Annalee McConnell	Juneau	465-4660
• Brian Rogers	Fairbanks	452-2463	• Hugh Motley	Cooper Landing	595-1430
Vice Chair:			• Rep. Mike Navarre	Kenai	283-7223
• Judy Brady	Anchorage	272-1481	• Mary Nordale	Fairbanks	452-1666
Members:			• Mike O'Conner	Anchorage	561-3200
• Lee Gorsuch	Anchorage	786-1437	• Rep. Sean Parnell	Anchorage	258-8194
• Sen. Georgianna Lincoln	Rampart	465-3732	• Pat Pourchot	Juneau	465-4021
• Robert Loescher	Juneau	586-9231	• Sen. Steve Rieger	Anchorage	258-8188
• Bruce Ludwig	Juneau	586-2334	• Marie Westfall	Ketchikan	225-3561

Commission Office: 716 W. Fourth Avenue, Anchorage, 99501 • 258-8165 • 258-9869 (fax)
LRFPCLegis@state.ak.us (Internet) • Staff: Melissa Aber Fouse and Bob Walsh

Meeting Schedule

Next Meeting

Friday, June 30
by Video Conference
9 a.m. to 4 p.m.

Fairbanks: UAF-212 B Butrovich
Anchorage: UAA University Lake Building
Juneau: UAS Library

Agenda:

- Potential Federal Budget Impacts
 - Subcommittee Reports
 - Principles for State Expenditures
- Long Range Revenue/Expenditures Base Case

July Meetings

Friday, July 14 • 10 a.m. to 5 p.m.
Saturday, July 15 • 8:30 to 4:30 p.m.
Anchorage Legislative Information Office
Second Floor Conference Room

Thursday, July 27
Afternoon and Evening
by Video Conference
Fairbanks, Anchorage, Juneau Sites

Subcommittee Assignments

Expenditures • Judy Brady, Chair

Charge: Examine budget expenditures and recommend methods or principles by which to reduce or increase expenditures.

Revenue Sources • Mary Nordale, Chair

Charge: Identify potential sources of state revenue, estimate their impacts, and examine earnings of the permanent fund.

Budget Process and Reserves • Annalee McConnell, Chair

Charge: Examine the method by which state government builds and presents its budget; examine reserves and their possible uses.

Intergovernmental • Bob Loescher, Chair

Charge: Examine intergovernmental impact of federal and state budget actions. Work with municipalities and school organizations on fiscal impacts and public outreach about the commission's recommendations through municipal meetings.

Public Outreach • Bruce Ludwig, Chair

Charge: Identify methods and costs of informing the public about commission work including ways to receive public comment.

"Fiscal Notes" is a project of the Alaska State Chamber of Commerce. Information is compiled and written for the State Chamber by Cheryl Frasca. It is distributed to organizations, who fax it to their members. If you get more than one copy or no longer want to receive "Fiscal Notes", contact the organizations of which you are a member. For other comments, suggestions, contact the Chamber's Anchorage office at 278-2722; fax 278-6643. Please copy and distribute "Fiscal Notes" to others interested.

SCOMM

101:65

FY96 Alaska State Budget -
Including Permanent Fund (billion \$)

The State Budget:
General Fund
Federal Funds
Other Dedicated
Funds

\$3.649
+PFD\$0.550
=
\$4.199

**Core State
Government**

\$1.370

**Mun
Govt**

\$0.099

**Local
Schools**

\$0.790

**Independent
Corporations**

\$0.096

**University
System**

\$0.399

**Grants/ Formula
Programs for Individual
Citizens**

\$0.621
+PFD \$0.550
= \$1.171

**Grants/ Formula
Programs to
Non-Profit
Service
Providers**

\$0.274

FY96 Alaska State Budget - All Funds

(billion \$)

The State Budget:
General Fund
Federal Funds
Other Dedicated
Funds

\$3.649

Core State
Government

\$1.370

Mun
Govt

\$0.099

Local
Schools

\$0.790

Independent
Corporations

\$0.096

University
System

\$0.399

Grants/
Formula
Programs
for
Individual
Citizens

\$0.621

Grants/ Formula
Programs to
Non-Profit
Service
Providers

\$0.274

FY96 Alaska State Budget - General Funds **(billion \$)**

The State Budget:

\$2.323

Core State Government

\$0.847

Mun Govt

\$0.097

Local Schools

\$0.740

Independent Corporations

0

University System

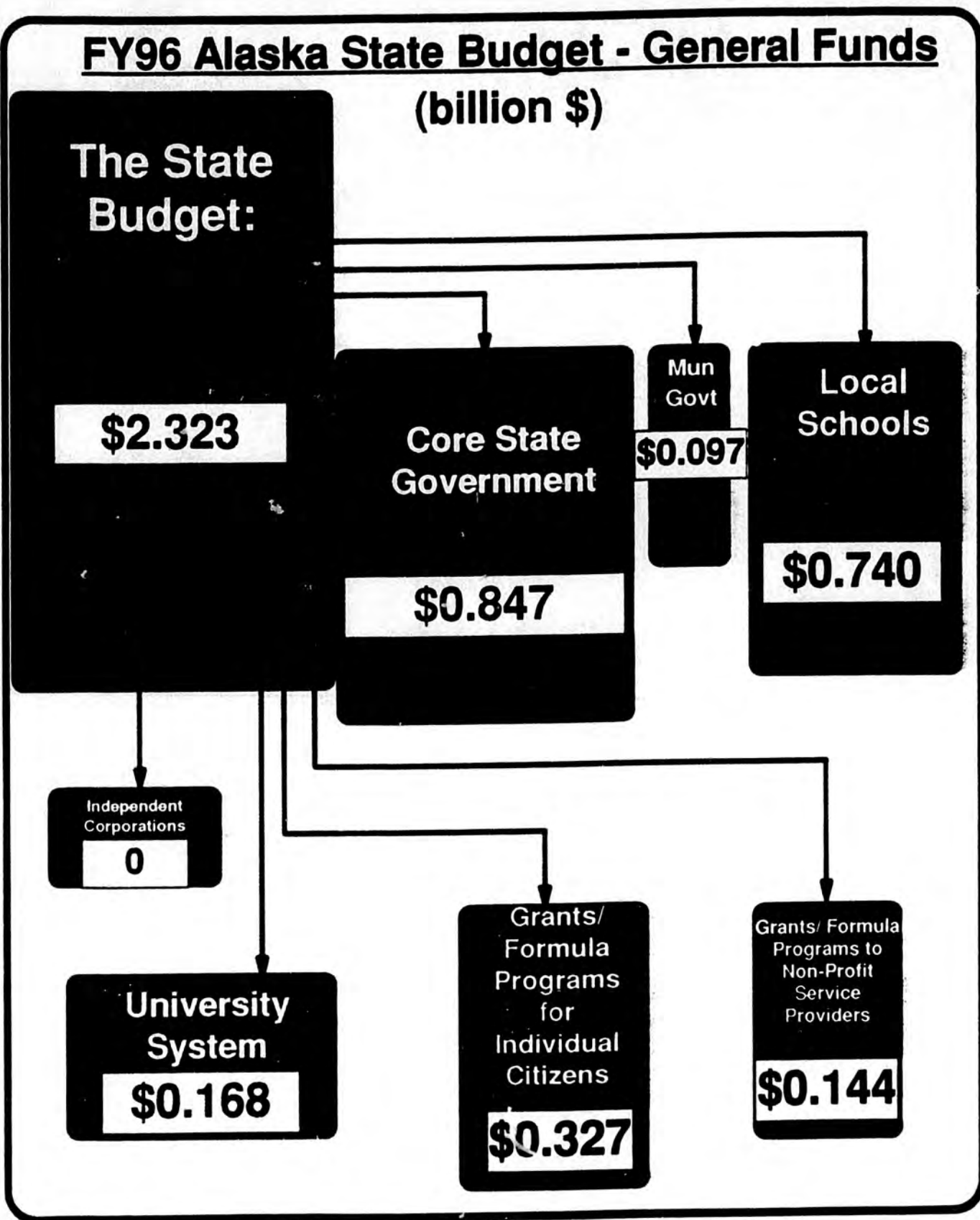
\$0.168

**Grants/
Formula
Programs
for
Individual
Citizens**

\$0.327

**Grants/ Formula
Programs to
Non-Profit
Service
Providers**

\$0.144



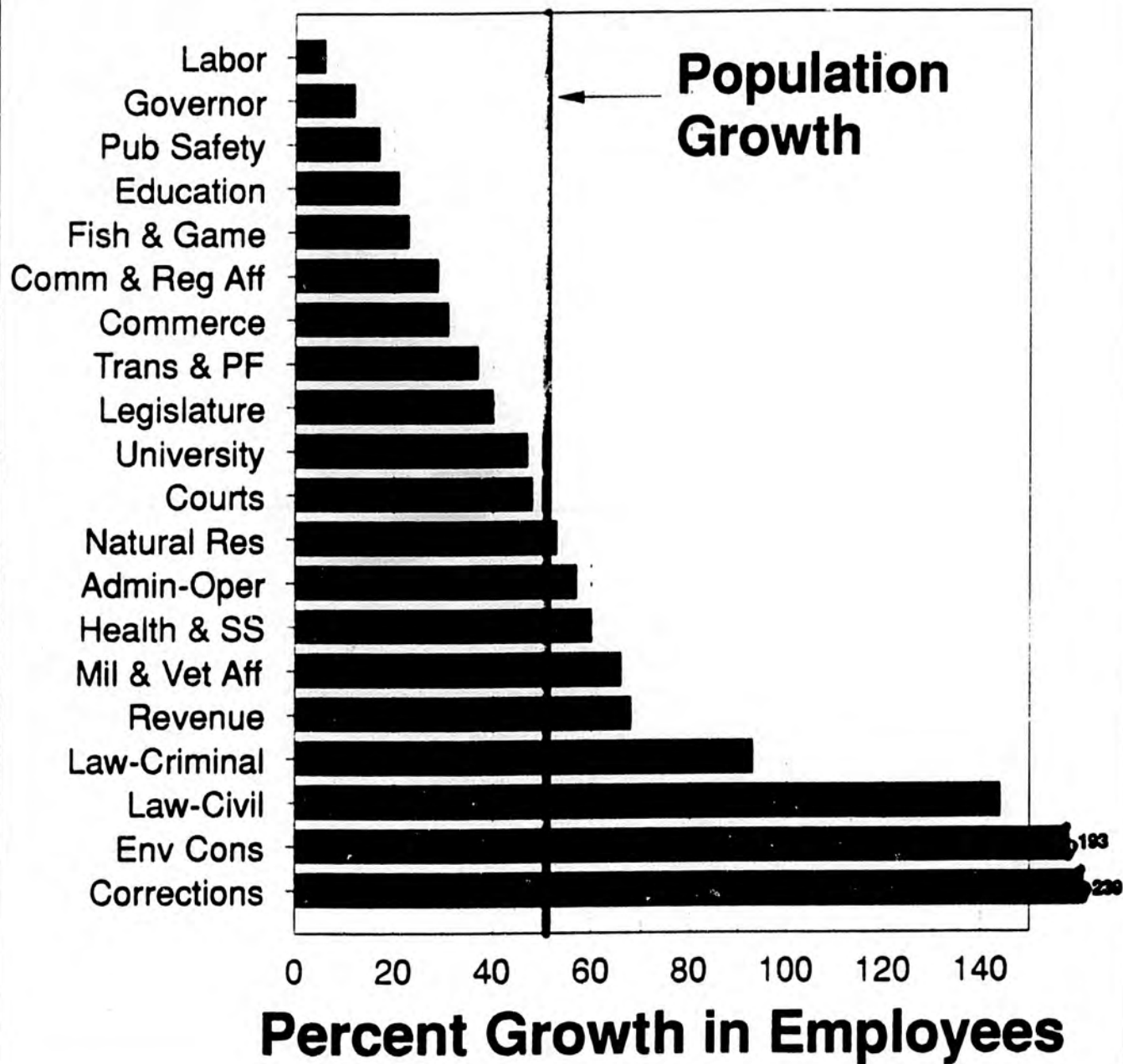
FY96 General Fund **Core State Government** **Budget** (thousand \$)

Personal Services	\$528,827
Travel	\$ 20,228
Contractual	\$217,883
Supplies/Buildings	\$ 53,188
Miscellaneous	\$ 26,609
TOTAL	\$846,734

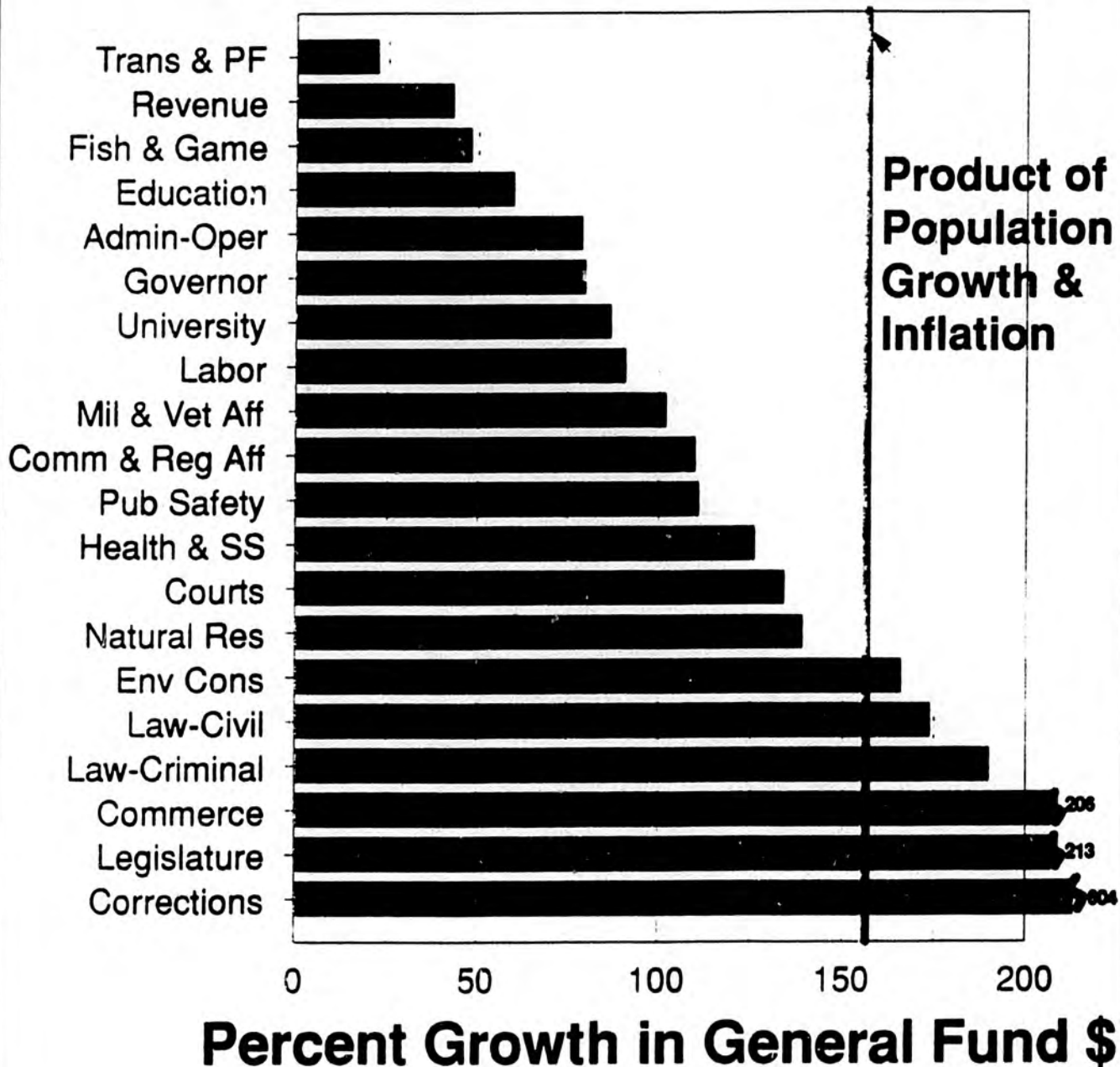
FY 1979 to 1996 General Fund Budget Comparisons (thousand \$)

	1979	1996	% Increase
Independent Corporations	\$326	0	
University	\$89,575	\$167,674	87%
Core State Government	\$438,418	\$846,735	93%
Municipal Assistance	\$36,784	\$97,439	165%
Grants to Schools	\$269,260	\$740,377	175%
Grants to Groups	\$33,222	\$144,093	333%
Grants to Individuals	\$60,228	\$326,873	440%
Total	\$927,813	\$2,323,190	150%
Consumer Price Index	77.6	135.8	75%
Population	398,000	606,300	52%
CPI * Population	N/A	N/A	165%

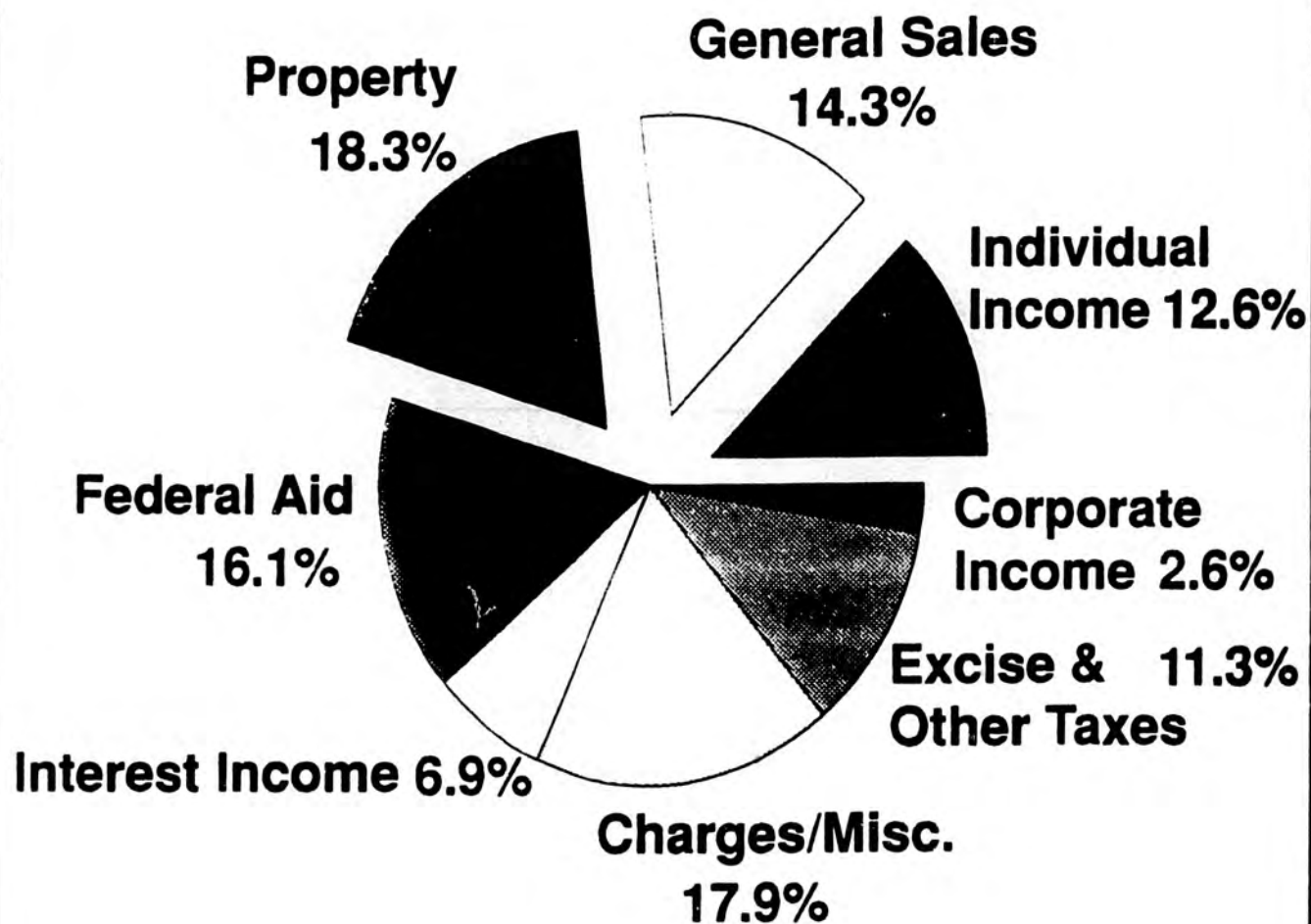
Growth of State Government: FY79 to FY96 - Full Time Employees (Programs as Located Currently)



Growth of State Government: FY79 to FY96 (Programs as Located Currently)

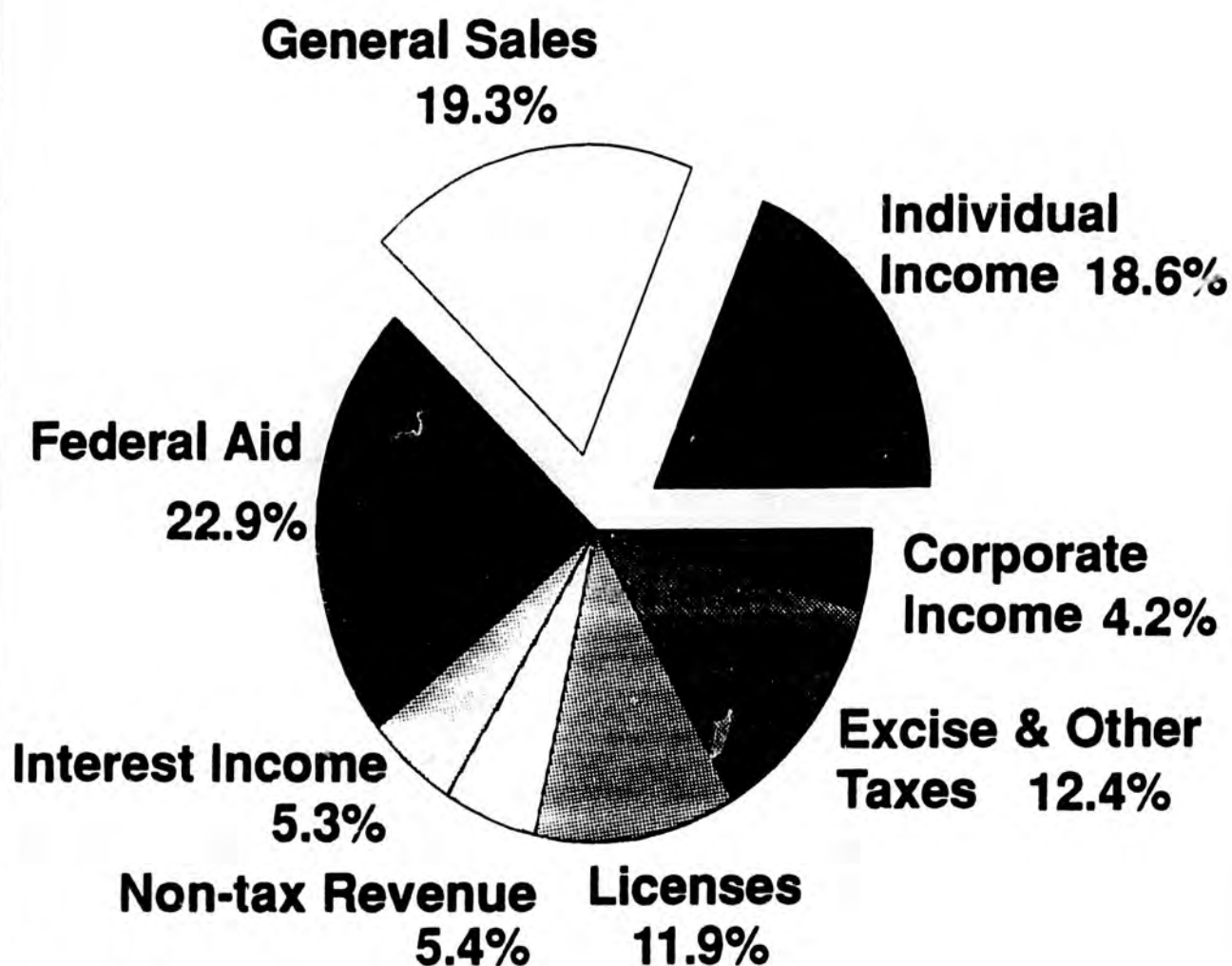


State and Local Revenue National Average - 1990



What Happens if You Break the "Look at them Together" Rule & Just Look at the State Part of the Picture?

Average State - 1990



SCOMM

101:66



FRAN ULMER
Lieutenant Governor

Dear Governor Knowles:

It is with great pleasure that I transmit these policy transition team recommendations to you for your consideration. These recommendations are the product of a consensus process of team members working together.

Because public involvement is so important to the credibility and productivity of government, we wanted to start our new administration by bringing together citizens with a wide variety of perspectives to participate in the public policy process. The policy transition teams provided forums for Alaskans to share their views and creative suggestions with our administration. The pages that follow are the summary of the recommendations of thirteen teams of 325 individuals who met between January 3 and January 13, 1995, in Anchorage, Bethel, Fairbanks, Juneau, Kenai, Kodiak and Sitka.

The teams were requested to provide public policy recommendations to guide the state in new directions. They were asked not to focus on personnel and agency organizational structures. In every case the meetings were successful in providing specific recommendations to achieve the goals you have established.

There were constant themes heard throughout the team meetings: 1) open up the public process; 2) streamline state government; 3) simplify permitting and regulations; and 4) work cooperatively with the federal government, regional interests and private entities.

The transition team process described in this summary is only the beginning of this administration's efforts to open the doors and windows of state government to more meaningful public participation. We must build upon this effort and continue with similar citizen participation processes to address the complex issues which must be resolved by Alaskans working together.

Sincerely,

A handwritten signature in cursive script that reads "Fran".

Fran Ulmer
Lieutenant Governor

POLICY TRANSITION TEAMS

LIEUTENANT GOVERNOR FRAN ULMER

Chair, Policy Transition Teams

DAVE ROSE

Chair, Knowles/Ulmer Transition

Bill Allen
Economic & Community
Development Team Leader

Kelly Brown
Public Service & Administration
Team Leader

Mike Burns
Public Service & Administration
Team Leader

Gregory Carr
Economic & Community
Development Marketing Chair

Sam Cotten
Federal/State Relations
Team Leader

Ben Ellis
Fisheries
Team Leader

Lee Gorsuch
Fiscal Policy
Team Leader

Cathy Herrnsteen
Education
Team Leader

Wilson Hughes
Transportation
Team Leader

Barry Hulin
Economic & Community
Development Finance Chair

Mayor Margy Johnson
Economic & Community
Development Small Business Chair

Janie Leask
Economic & Community
Development Team Leader

Bob Loescher
Natural Resources
Team Leader

Mayor Don Long
Public Safety
Team Leader

Mayor Byron Mallott
Fiscal Policy
Team Leader

Will Mayo
Federal/State Relations
Team Leader

Myra Munson
Human Services
Team Leader

Kevin O'Leary
Fisheries
Team Leader

Chief Kevin O'Leary
Public Safety
Team Leader

Reverend Alonzo Patterson
Public Safety
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Gene Peltola
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Mary Pete
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Pete Schaeffer
Education
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Mayor Alaire Stanton
Transportation
Team Leader

Morris Thompson
Economic & Community Development
Regional Economics Chair

Esther Wunnicke
Natural Resources
Team Leader

STAFF

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Staff Director

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Administrative Support

Sam Kito III
Administrative Support

Kimberly Metcalfe Helmar
Human Services, Public Safety, and
Transportation

Leslie Ridle
Education and
Public Service & Administration

Joe Talbot
Administrative Support

Jay Nelson
Federal/State Relations, Fisheries,
and Natural Resources

Veronica Slajer
Fiscal Policy and Economic &
Community Development

Chip Thoma
Administrative Support

Other individuals who made this transition team process possible.

Tom Atkinson, Patty Bielawski, Deborah Bonito, Heather Bradner, Rex Blazer, Amy Daugherty, Mike Davis, Kevin Dee, Ginny Fay, Helen Fisher, Claire Geldhof, Joe Geldhof, Peter Goll, Sheri Goll, Mark Handley, Sheri Hazeltine, Nicole Hentz, Bill Kelder, Mary McDowell, Karl Ohls, Kurt Parkan, Bill Parker, Jeff Parker, Brad Pierce, Ernest Piper, Pat Pourchot, Catherine Reardon, Paul Roehl, Bob Rubadeau, Paula Terrel, Tim Towarak, Suzanne Sloan-Rust, Moira Smith, Elaine Steenson, Dick Stouff, Annette Thorn, April Warwick and Mike Walleri.

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Linda Pennywell
Bob Sullivan
Burt Wagnon

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Ken R. Thompson
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Tom Brigham
Ron Crenshaw
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Mayfield Evans
Roy Ewan
Don Gilman
Gordon Hayes
Tom Healy
Dave Heier
Jerry Hood
Bill Hopper
Loren Lounsbury
Don Lowell
David Norton
Frankie Pillifant
Bob Provost
Cheryl Richardson
Luke Sampson
Joe Thomas
Greg Wakefield

* served as subcommittee chair

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Economic & Community Development

Members of the Economic and Community Development (E&CD) policy team proposed ways in which the state can help build a stronger economy in urban and rural Alaska. The team addressed specific small business and regional development issues, the best methods to market Alaska's products and services both domestically and internationally, and the future of Alaska's financing agencies.

Recognizing that encouraging economic growth is a complex task, the E&CD policy team was separated into four subcommittees: Finance, Marketing Alaska, Regional Economies, and Small Business.

FINANCE SUBCOMMITTEE

The Finance Subcommittee was asked to review the issues facing the state's top grant and loan programs, including Alaska Industrial Development and Export Authority (AIDEA), Alaska Housing Finance Corporation (AHFC), Municipal Bond Bank (MBB), and Alaska Science and Technology Foundation.

RECOMMENDATIONS

ALASKA HOUSING FINANCE CORPORATION

- Ensure that Alaskans have safe, sound and sanitary housing with an emphasis on low- and moderate-income, and special-needs housing.
 - Establish a state policy to prohibit further raids on AHFC assets. Any disbursements ought to be part of an overall fiscal policy for the state, not a quick-fix funding source.
 - Continue dividend payments to the state from AHFC corporate earnings, as part of a long-term fiscal plan.
 - Support and implement a housing policy as articulated in merger legislation.
 - Inventory programs for effectiveness and potential consolidation opportunities.
 - Explore housing partnerships with other public and private entities.
 - Develop a fiscal policy to ensure the viability of AHFC.
 - Provide incentives and flexibility for home ownership in keeping with mission.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

- Work more aggressively on the primary mission of job creation through assisting small businesses.
 - Issue revenue bonds to promote economic development in small Alaska communities.
 - Pursue more private-public partnerships.
- Review and incorporate AIDEA activities into an overall strategy to promote broad-based economic development, consistent with this administration's economic policies.
 - Establish the policy that there will be no raids on the assets of the AIDEA. Funds should only revert to the state's general fund as part of an overall fiscal policy or long-term solution, not a stop-gap funding source for lack of planning.
 - Request the board of directors to update the 1990 University of Alaska-Anchorage/Institute for Social and Economic Research evaluation report of AIDEA.
 - Request the AIDEA board to do a complete inventory of loans by size, geographic distribution, employment, and performance. The review should include all economic develop-

ment and finance tools currently available in all state agencies.

- a) Work with private lenders to identify capital gaps that exist in the current lending environment.
- b) Review and identify the appropriate level of legislative oversight and administrative authority over project financing.
- c) Review the size and makeup of the board, possibly broaden the representation with more private sector members.
- d) Assess AIDEA's export authority potential and pursue possible opportunities in the Far East.
- e) Review its loan distribution to determine the availability of the authority's funds for rural Alaska projects.

MUNICIPAL BOND BANK

- Encourage the Municipal Bond Bank (MBB) to take a pro-active role in assisting Alaska communities with their economic and infrastructure development needs.
 - Communicate available opinions to the communities.
 - Maximize the use of MBB to assist smaller, less creditworthy communities by providing access to necessary credit.
 - Focus on helping communities with their general obligation and tax-exempt revenue bonding needs.

ALASKA SCIENCE AND TECHNOLOGY FOUNDATION

- Enhance the marketing efforts of the Alaska Science and Technology Foundation, in recognition of its unique role in Alaska's economic development future.
 - No further raids on the assets of the foundation. Any funds reverted to the state's general fund ought to be part of an overall fiscal policy or long-term solution.

MANAGING ALASKA'S ASSETS AND FINANCIAL PROGRAMS

- Promote the use of Alaska expertise in managing public investments, whenever feasible.
 - Improve the state's approach toward using instate investment firms to manage Alaska's capital.
 - Consider potential regulatory and/or statutory changes.
 - Incorporate Alaska bidders' preference where appropriate.
 - Pursue ways to assist smaller firms to qualify for investment firm requirements, such as considering an individual's experience, not just the firm's longevity.
- Establish a process for review and cooperation among all state finance and investment programs.
 - Institute quarterly meetings with the governor and the directors of all investment programs.
 - Charge the team of directors with a thorough review of all state financial programs, including AHFC, AIDEA, the Division of Investments, and the Alaska Science and Technology Foundation.

MARKETING ALASKA SUBCOMMITTEE

The mission of the Marketing Alaska subcommittee was to address strategies that the state can employ to increase its market share in the world economy. The primary question considered was: "How can the state of Alaska provide an incentive for local, national and international businesses to grow in Alaska?"

RECOMMENDATIONS

- Develop markets and invest in oil, seafood, tourism, timber and mining industries with the understanding that Alaska's priorities are hiring Alaskans, adding value to Alaska's resources, and enhancing, not detracting from, the beauty and unspoiled nature of Alaska.
 - Support and provide assistance for small business development.
 - Convene a multi-industry marketing summit.
 - Charge the Alaska State Council on the Arts with the responsibility of assessing the economic impact of Native arts and crafts and identifying particular actions that need to be taken to foster the growth and expansion of Native arts and crafts as an industry.
 - Consider the marketing knowledge and experience of candidates when appointing to boards and commissions.
 - Aggressively market Alaska as a location for film production.
 - Use Alaska as a backdrop for national advertising campaigns.
 - Encourage the processing of value-added products in the state.
- Actively market Alaska as a visitor destination in international and domestic markets and conduct long-range planning and research to create steady industry growth and create jobs in Alaska.
 - Develop an alternative marketing program to "Tourism North" that promotes road-oriented tourism traffic.
- Support the development and provide technical and financial assistance to both regional and special-interest tourism marketing organizations.
 - Serve as an advocate for the restoration and rehabilitation of key recreation and tourism sites on public lands.
 - Recognize industry in-kind and financial contributions on all levels (local, regional, etc.) toward the tourism marketing match.
 - Participate in National Forest management planning.
 - Continue to provide leadership in "Alaska Host" program in an effort to improve visitors' experiences.
 - Support the activities of the "Governor's Tourism Coordinating Committee."
 - Encourage the University of Alaska, Fairbanks, to continue its effort to construct a center to enhance visitors' experiences of the Aurora Borealis.
 - Introduce legislation to reduce the costs of limited liability insurance.
- Recognize the importance of protecting the high quality image of Alaska products and services.
 - Develop an action plan to ensure that quality standards are maintained.
 - Support Alaska Seafood Marketing Institute marketing and quality programs in domestic and international markets.

- Assess the economic impact of research as an industry in Alaska and encourage the development technology and knowledge as exportable commodities.
- Encourage private-public funding for economic development that is reasonable, fair, equitable, consistent, and that encourages industry incentives in order to participate.
 - Call for an oil industry summit, involving industry, public and other interested parties to review all methods of generating revenue from the oil industry, including the tax and incentive structure in Alaska.
 - Coordinate publicly funded marketing projects with private enterprise.
 - Participate in infrastructure development through partnerships for state, federal and industry joint investments.
 - Reactivate Tourism Revolving Loan Fund.
 - Leverage contacts through the Alaska Permanent Fund to encourage more business investments in Alaska.

REGIONAL ECONOMIES SUBCOMMITTEE

The Regional Economies subcommittee believes that a strong, sustainable economy in rural Alaska can be realized by building needed infrastructure and communications systems, recognizing and enhancing the differences between rural and urban businesses, and developing potential public-private partnerships.

RECOMMENDATIONS

RESOURCE DEVELOPMENT

- Aggressively pursue resource development opportunities consistent with local preferences and involvement.
 - Recognize the differences between rural and urban "economies."
 - Aggressively pursue continuation of Community Development Quotas (CDQ) and expand the program to other fish species.
 - Use the CDQ program as model of how to access financial resources to benefit impacted communities.
 - Propose and pursue a subsistence constitutional amendment.
 - Inventory resources for development, by region.
 - Review the state's role in market research and development.
 - Promote public-private partnerships for achieving comprehensive regional resource development.
 - Promote co-management of resources through effective sharing of on-the-ground management responsibility among resource owners and resource users.
 - Review the ban on mariculture.
 - Support and establish standards for value-added processing.
 - Promote self-sustaining resource development.
 - Promote the opening of the Arctic National Wildlife Refuge (ANWR).
 - Maintain control of Alaska's resources.
 - Encourage regional product certification programs.

TOURISM

- Encourage the continued growth and geographical and seasonal expansion of the tourism industry, including rural tourism services and infrastructure.
 - Shift tourism marketing to include an emphasis on smaller local and regional locations.
 - Encourage investment and financing opportunities in rural Alaska.
 - Establish adequate local infrastructure as a means of attracting and accommodating tourists, such as the Alaska Native Heritage Park in Anchorage.
 - Assist Alaska villages to promote Alaska village tours.

LOCAL EMPOWERMENT

- Empower local and regional organizations to develop community and regional economies through decentralizing government services and having state agencies recognize the specific needs and preferences of local people.
 - Take a strategic and comprehensive approach to technical assistance.
 - Recognize Native governments.
 - Implement regional and local plans.
 - Establish an Office of Native Affairs.
 - Improve the state's relationship with ANCSA corporations by establishing mechanisms for local and regional economic development, and better utilize the available vehicles for resource and other development.
 - Recognize local capacity to leverage money.
 - In addition to ANCSA corporations, use other existing regional development entities such as local governments, IRAs, regional non-profits, Alaska regional development organizations (ARDORs).
 - Assure that basic human and social needs do not distract from efforts to address long-range economic development.
 - Reduce bureaucratic red tape and change grant guidelines (deadlines) to make them more user-friendly.
 - Make state plans conform to regional interests/plans (departments of Transportation and Natural Resources).
 - Enhance the communications infrastructure statewide.

HUMAN RESOURCES

- Fully utilize our human resources through local hiring and training and by recognizing and supporting the unique characteristics of our rural economies.
 - Promote "force accounting" for government programs.
 - Provide technical assistance to local governments on force accounting process and procurement.
 - Encourage state agencies to contract with local entities where possible.
 - Eliminate or revamp the existing state hiring system. (Give local people preference for positions, improve accountability, review qualification requirements, possibly recognize life and work experience as acceptable experience to qualify for state positions, and make state employment applications more user friendly.)
 - Pursue a state Minority Business Enterprise/Disadvantaged Business Enterprise (MBE/DBE) program for all departments of government, including expansion of the already

- existing federal program located in DOT/PF
- Expand the "Buy Alaska" program and circulate a statewide list of Alaska-owned business and supplies.
- Educate the public and rural communities about state hiring procedures.

ACCESS TO CAPITAL

- Ensure adequate capital is locally available to take advantage of local and regional economic development opportunities.
 - Provide technical assistance for local communities and regions on leveraging money from multiple sources, and use feasibility studies.
 - Maintain AHFC Rural Loan Guarantee, which enables banks to achieve Community Reinvestment Act obligations, and promotes "in home" businesses.
 - Promote the leveraging of funds where possible (maximize use and opportunities as required by the Community Reinvestment Act).
 - Research the feasibility of Alaska community foundations.
 - Monitor federal/corporate foundations for additional capital opportunities.
 - Review existing feasibility studies for current applicability.
 - Expand AIDEA's involvement in rural areas to address the needs of smaller start-up or existing businesses.
 - Encourage and support economies of scale through public-private partnerships at the state, regional and local levels to attract "outside" investment capital.

GOVERNMENT COORDINATION

- Mandate early cooperation and coordination on all government projects and programs between various state and federal agencies, local governments and private parties.
 - Recognize and support the Alaska Federation of Native's short- and long-term plans.
 - Coordinate the state's approach to technical assistance and the entire planning process.
 - Encourage ARDORs to work with all existing governments and programs.
 - Organize clearinghouse or better reference material on "who to contact" for economic development assistance.
 - Foster the university system as a partner in development.

INFRASTRUCTURE AND TECHNOLOGY

- Support development of infrastructure necessary to promote community and economic development, using technology that can be sustained by available human and financial resources (e.g., affordable electricity, sewer and water, sanitation, information superhighway).
 - Support the power cost equalization program.
 - Utilize technological advances and innovation to reduce the cost of living in rural Alaska.
 - Help rural communities plan, build, and maintain cost-effective water, sewer and sanitation systems as a critical foundation for economic development.
 - Use appropriate technology for regions, considering the needs of the local people and operations and management costs before approving projects.
 - Seek opportunities which utilize communication technology that allows business to be conducted from any location.
 - Fund water, sewer and energy needs in rural Alaska.
 - Improve telecommunication systems.

- Provide better access to natural resources.

SMALL BUSINESS SUBCOMMITTEE

The Small Business subcommittee discussed the state's role in encouraging both the establishment of new businesses and providing assistance for existing businesses to remain healthy and viable.

In addition to the following recommendations, the Small Business Subcommittee endorsed the 1989 Governor's Conference on Small Business recommendations.

RECOMMENDATIONS

SUPPORT ALASKA BUSINESSES

- Build a strong, sustainable economy through the support of Alaska small businesses.
 - Adopt a new attitude to foster small business development statewide, including a "buy Alaska" approach to state purchases of goods and services.
 - Develop incentives for local hire, and a "real" definition of what constitutes a "local business."
 - Work cooperatively with local private business organizations to assist business development.
 - Develop policies (where appropriate) to support the development and expansion of Alaska-owned and located businesses.

TRANSPORTATION

- Explore ways of reducing freight transportation costs.
 - Continue to pursue federal funding for essential air service.
 - Explore ways to continue commuter and charter service in the face of impending changes in federal regulations.
 - Examine federal freight subsidy policies.
 - Introduce enabling legislation for the creation of freight cooperatives.
 - Review the TransWestern Rate Agreement.
- Maintain and improve transportation services to benefit small business.
 - Evaluate impacts of regulation on small transportation-related businesses.
 - Pursue the establishment of a marine highway authority.
- Invest in needed improvements and maintenance of Alaska's transportation system to lower costs and improve access to markets.
 - Encourage the state to fully utilize available federal funds for airport, road and ferry improvements.
 - Maintain and enhance the existing road system.
 - Explore development of local/private marine transportation systems.
 - Improve rural airports, including modernizing equipment, especially Global Positioning System approaches.
 - Improve the utilization of back haul opportunities.
 - Explore the state's role in establishing insurance pools for charter and commuter airlines.

- to lower the cost of insurance.
- Pursue new partnerships with unions representing workers on the Alaska Marine Highway System.
- Define operational goals for the ferry system.
- Create a road advertising plan that includes advertisement kiosks at pullouts, as an alternative to billboards.

FINANCE

- Support financial access for small business development, recognizing that a lack of adequate financing is a major stumbling block.
 - Identify, review and consolidate the financing opportunities for small business projects.
 - Publicize available financing information for small business people.
 - Review and adjust the Alaska Industrial Development and Export Authority (AIDEA) policies, if necessary, to allow greater flexibility for smaller loans.
 - Review venture capital options.
 - Provide incentives to private banks to increase loans to residents and businesses in rural Alaska.

REGULATION

- Change the state's attitude and alleviate the cumbersome nature of regulations as they affect small businesses.
 - Create and publicize a "small business advocate" position.
 - Establish workable variance and appeal-review processes.
 - Coordinate federal, state, and local agencies to further streamline the regulatory process.
 - Establish a regulatory review commission.
 - Coordinate federal, state and local regulatory bodies and consolidate annual reporting requirements.
 - Ensure that all regulations have a sunset date and a process for appeal.

WORKFORCE EDUCATION/TRAINING

- Take a leadership role in training Alaskans for Alaska jobs.
 - Establish incentives for apprenticeships.
 - Commit to overhaul the Job Training Partnership Act (JTPA) program.
 - Provide better access to training programs.
 - Work with the public and private sectors to identify and teach the skills, values and attitudes critical for successful employment.
 - Coordinate, consolidate and improve existing training programs.
 - Support partnership programs with businesses.

TECHNICAL ASSISTANCE TO SMALL BUSINESS

- Promote needed technical assistance to small businesses.
 - Inventory, coordinate, consolidate and publicize existing programs.