

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2425 SCOMM 101 LONG RANGE FINANCIAL PLANNING COMMISSION, 1995

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INSUFFICIENT TO MEET THE ALLOCATIONS AUTHORIZED UNDER AS 14.17.-010 - 14.17.190, [FOR A FISCAL YEAR, EACH DISTRICT'S BASIC NEED SHALL BE REDUCED PRO RATA AS NECESSARY TO MAKE THE FUNDS AVAILABLE SUFFICIENT TO MEET THE ALLOCATIONS FOR THAT FISCAL YEAR] SUCH FUNDS AS ARE AVAILABLE SHALL BE DISTRIBUTED PRO RATA AMONG EACH DISTRICT BASED UPON THE DISTRICT'S NEED.

- * SEC. 4. AS 22.30.040 IS AMENDED TO READ:

SEC. 22.30.040. PREPARATION OF BUDGET. THE COMMISSION SHALL BE RESPONSIBLE FOR PREPARING AND PRESENTING TO THE LEGISLATURE ITS PROPOSED [ANNUAL] BUDGETS. [FOR THE COMMISSION]

- * SEC. 5. AS 23.30.241(B) IS AMENDED TO READ:

(B) APPROPRIATIONS [ANNUAL APPROPRIATIONS] TO FUND THE COVERAGE PROVIDED FOR IN (A) OF THIS SECTION SHALL BE PROVIDED FOR IN THE BUDGET OF THE DEPARTMENT OF PUBLIC SAFETY.

- * SEC. 6. AS 23.30.242(B) IS AMENDED TO READ:

(B) APPROPRIATIONS [ANNUAL APPROPRIATIONS] TO FUND THE COVERAGE PROVIDED FOR IN (A) OF THIS SECTION SHALL BE PROVIDED FOR IN THE BUDGET OF THE OFFICE OF THE GOVERNOR.

- * SEC. 7. AS 24.20.130 IS AMENDED TO READ:

SEC. 24.20.130. BUDGETS. THE COUNCIL SHALL SUBMIT A BUDGET OF ITS ANTICIPATED NEEDS FOR EACH FISCAL YEAR TO THE FINANCE COMMITTEES OF THE LEGISLATURE. THE EXECUTIVE DIRECTOR SHALL BIENNIALLY [ANNUALLY] SUBMIT AN ESTIMATED BUDGET TO THE GOVERNOR FOR INFORMATION PURPOSES IN THE PREPARATION OF THE EXECUTIVE BUDGET. THE COUNCIL STAFF SHALL ALSO ASSIST, AS NEEDED, IN PREPARING A BUDGET OF THE ANTICIPATED [ANNUAL] NEEDS OF THE LEGISLATURE.

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- * SEC. 8. AS 24.20.132 IS AMENDED TO READ:

SEC. 24.20.132. LEGISLATIVE BUDGET AND EXPENSES. THE ESTIMATE OF OPERATING EXPENSES FOR THE LEGISLATURE SHALL BE INCLUDED IN THE BIENNIAL [ANNUAL] BUDGET SUBMITTED BY THE LEGISLATIVE COUNCIL. A SUMMARY TOTAL BY MAJOR ITEM SHALL BE SUBMITTED BY THE COUNCIL TO THE GOVERNOR FOR INFORMATION PURPOSES IN THE PREPARATION OF THE EXECUTIVE BUDGET. A DETAILED BUDGET DOCUMENT SHALL BE SUBMITTED TO THE HOUSE AND SENATE FINANCE COMMITTEES. ALL DISBURSEMENTS FROM LEGISLATIVE APPROPRIATIONS SHALL BE CERTIFIED BY THE BONDED CERTIFYING OFFICER DESIGNATED BY THE COUNCIL.

- * SEC. 9. AS 24.55.080(c) IS AMENDED TO READ:

(c) THE OMBUDSMAN SHALL SUBMIT A BUDGET FOR EACH FISCAL YEAR TO THE ALASKA LEGISLATIVE COUNCIL AND THE COUNCIL SHALL BIENNIALLY [ANNUALLY] SUBMIT AN ESTIMATED BUDGET TO THE GOVERNOR FOR INFORMATION PURPOSES IN THE PREPARATION OF THE EXECUTIVE BUDGET. AFTER REVIEWING AND APPROVING, WITH OR WITHOUT MODIFICATIONS, THE BUDGET SUBMITTED BY THE OMBUDSMAN, THE COUNCIL SHALL SUBMIT THE APPROVED BUDGET TO THE FINANCE COMMITTEES OF THE LEGISLATURE.

- * SEC. 10. AS 26.05.226(b) IS AMENDED TO READ:

(b) THE AMOUNT REQUIRED FOR CONTRIBUTIONS FROM THE DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS UNDER (A) OF THE SECTION SHALL BE INCLUDED IN [THE ANNUAL] APPROPRIATIONS MADE TO THE DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS.

- * SEC. 11. AS 37.07.010 IS AMENDED TO READ:

SEC. 37.07.010. STATEMENT OF POLICY. IT IS THE PURPOSE OF THIS CHAPTER TO ESTABLISH A COMPREHENSIVE SYSTEM FOR STATE PROGRAM

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AND FINANCIAL MANAGEMENT THAT FURTHERS THE CAPACITY WHICH THEY DETERMINE THE STATE WILL PROVIDE FOR ITS CITIZENS. THE SYSTEM SHALL INCLUDE PROCEDURES FOR

(1) THE ORDERLY ESTABLISHMENT, CONTINUING REVIEW, AND PERIODIC REVISION OF THE PROGRAM GOALS AND POLICIES OF STATE AGENCIES AND FINANCIAL GOALS AND POLICIES OF THE STATE;

(2) THE DEVELOPMENT, COORDINATION AND REVIEW OF LONG-RANGE PROGRAM AND FINANCIAL PLANS THAT WILL IMPLEMENT ESTABLISHED STATE GOALS AND POLICIES;

(3) THE PREPARATION, COORDINATION, ANALYSIS, AND ENACTMENT OF A BIENNIAL BUDGET THAT IS ORGANIZED TO FOCUS ON THE SERVICES PROVIDED BY STATE AGENCIES AND ON THE COST OF THOSE SERVICES AND THAT PROVIDES FOR IMPLEMENTATION OF POLICIES AND PLANS IN THE SUCCEEDING BUDGET PERIOD;

(4) THE EVALUATION OF ALTERNATIVES TO EXISTING POLICIES, PLANS AND PROCEDURES THAT OFFER POTENTIAL FOR MORE EFFICIENT STATE SERVICES;

(5) THE REGULAR APPRAISAL AND REPORTING OF PROGRAM PERFORMANCE;

(6) PUBLIC PARTICIPATION IN THE DEVELOPMENT OF THE BIENNIAL [ANNUAL] BUDGET, INCLUDING OPPORTUNITY FOR THE PUBLIC TO REVIEW AND COMMENT UPON THE PLANS AND PROGRAMS OF THE OFFICE OF THE GOVERNOR AND ALL STATE AGENCIES IN THE EXECUTIVE BRANCH, THE LEGISLATURE, THE JUDICIAL SYSTEM, THE UNIVERSITY OF ALASKA AND THE PUBLIC CORPORATIONS OF THE STATE.

*** SEC. 12. AS 37.07.020(A) IS AMENDED TO READ:**

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(A) THE GOVERNOR SHALL PREPARE AND SUBMIT TO THE LEGISLATURE BEFORE THE FOURTH LEGISLATIVE DAY OF EACH SECOND REGULAR LEGISLATIVE SESSION A BUDGET FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR] WHICH MUST COVER ALL ESTIMATED RECEIPTS, INCLUDING ALL GRANTS, LOANS, AND MONEY RECEIVED FROM THE FEDERAL GOVERNMENT, AND ALL PROPOSED EXPENDITURES OF THE STATE GOVERNMENT. THE BUDGET SUBMITTED BY THE GOVERNOR SHALL BE ORGANIZED SO THAT THE PROPOSED EXPENDITURES FOR EACH AGENCY ARE PRESENTED SEPARATELY. THE BUDGET SHALL BE ACCOMPANIED BY A GENERAL APPROPRIATION BILL TO AUTHORIZE THE PROPOSED EXPENDITURES, AND A BILL OR BILLS COVERING RECOMMENDATIONS IN THE BUDGET FOR NEW OR ADDITIONAL REVENUE. THE PROPOSED GENERAL APPROPRIATIONS BILL SHALL BECOME PUBLIC INFORMATION ON DECEMBER 15 [OF EACH YEAR] AT WHICH TIME THE GOVERNOR SHALL SUBMIT COPIES TO THE LEGISLATURE AND MAKE COPIES AVAILABLE TO THE PUBLIC.

* SEC. 13. AS 37.07.020(c) IS AMENDED TO READ:

(C) PROPOSED EXPENDITURES MAY NOT EXCEED ESTIMATED REVENUES FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR]. THE EXPENDITURES PROPOSED IN THE SIX-YEAR CAPITAL IMPROVEMENTS PROGRAM AND FINANCIAL PLAN MAY NOT EXCEED THE ESTIMATED REVENUE AND BOND AUTHORIZATIONS PASSED AND PROPOSED.

* SEC. 14. AS 37.07.020 IS AMENDED BY ADDING A NEW SUBSECTION TO READ:

(E) DURING EACH FIRST REGULAR LEGISLATIVE SESSION, THE GOVERNOR MAY PROPOSE ADJUSTMENTS TO THE BIENNIAL BUDGET INCLUDING SPECIAL AND SUPPLEMENTAL APPROPRIATIONS.

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*** SEC. 15. AS 37.07.030 IS AMENDED TO READ:**

**SEC. 37.07.030 RESPONSIBILITIES OF THE LEGISLATURE. THE
LEGISLATURE SHALL**

- (1) PROVIDE FOR A BUDGET REVIEW FUNCTION;**
- (2) ANALYZE THE COMPREHENSIVE OPERATING THE CAPITAL
IMPROVEMENTS PROGRAMS AND FINANCIAL PLANS RECOMMENDED BY THE
GOVERNOR;**
- (3) ADOPT LEGISLATION TO AUTHORIZE IMPLEMENTATION OF
THE GOVERNOR'S COMPREHENSIVE OPERATING AND CAPITAL IMPROVEMENTS
PROGRAMS AND FINANCIAL PLANS OR APPROPRIATE ALTERNATIVES TO THOSE
PLANS;**
- (4) PROVIDE FOR A POST-AUDIT FUNCTION TO COVER FINANCIAL
TRANSACTIONS, PROGRAM ACCOMPLISHMENT, AND COMPLIANCE WITH LEGISLA-
TIVE INTENT;**
- (5) ADOPT OR REVISE THE ESTIMATE OR RECEIPTS REQUIRED TO
BALANCE THE BIENNIAL [SUCCEEDING FISCAL YEAR'S] BUDGET IN ORDER
THAT PROPOSED EXPENDITURES DO NOT EXCEED ESTIMATED RECEIPTS FOR
THE SUCCEEDING BUDGET PERIOD [THAT FISCAL YEAR];**
- (6) ADOPT, REVISE OR INITIATE REVENUE MEASURE IN ORDER TO
BALANCE THE BIENNIAL [SUCCEEDING FISCAL YEAR'S] BUDGET AND THE
CAPITAL IMPROVEMENTS SECTION OF THE BUDGET FOR THE SUCCEEDING SIX
YEARS.**

*** SEC. 16. AS 37.07.040 IS AMENDED TO READ:**

**SEC. 37.07.040. OFFICE OF MANAGEMENT AND BUDGET. THE ALASKA
OFFICE OF MANAGEMENT AND BUDGET SHALL**

- (1) ASSIST THE GOVERNOR IN THE PREPARATION AND EXPLANA-**

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TION OF THE PROPOSED COMPREHENSIVE PROGRAM AND FINANCIAL PLAN, INCLUDING THE COORDINATION AND ANALYSIS OF STATE AGENCY GOALS AND OBJECTIVES, PLANS, AND BUDGET REQUEST;

(2) PREPARE FOR SUBMISSION TO THE GOVERNOR AN ANNUALLY UPDATED SIX-YEAR CAPITAL IMPROVEMENTS PROGRAM AND THE PROPOSED CAPITAL IMPROVEMENTS BUDGET FOR THE SUCCEEDING BUDGET PERIOD [COMING FISCAL YEAR], THE LATTER TO INCLUDE INDIVIDUAL PROJECT JUSTIFICATION WITH DOCUMENTATION OF ESTIMATED PROJECT COST;

(3) DEVELOP PROCEDURES TO PRODUCE THE INFORMATION NEEDED FOR EFFECTIVE POLICY DECISION MAKING, INCLUDING PROCEDURES TO PROVIDE FOR THE DISSEMINATION OF INFORMATION ABOUT PLANS, PROGRAMS, AND BUDGET REQUEST TO BE INCLUDED IN THE BIENNIAL [ANNUAL] BUDGET AND OPPORTUNITY FOR PUBLIC REVIEW AND COMMENT DURING THE PERIOD OF BUDGET PREPARATION;

(4) ASSIST STATE AGENCIES IN THEIR STATEMENT OF GOALS AND OBJECTIVES, PREPARATION OF PLANS, BUDGET REQUESTS, AND REPORTING OF PROGRAM PERFORMANCE; ALL DOCUMENTS FORWARDED BY THE OFFICE TO A STATE AGENCY CONTAINING INSTRUCTIONS FOR THE PREPARATION OF PROGRAM PLANS AND BUDGET REQUEST AND THE REPORTING OF PROGRAM PERFORMANCE ARE PUBLIC INFORMATION AFTER THE DATE THEY ARE FORWARDED;

(5) ADMINISTER ITS RESPONSIBILITIES UNDER THE PROGRAM EXECUTION PROVISIONS OF THIS CHAPTER SO THAT THE POLICY DECISIONS AND BUDGET DETERMINATIONS OF THE GOVERNOR AND THE LEGISLATURE ARE IMPLEMENTED;

(6) PROVIDE THE LEGISLATIVE FINANCE DIVISION WITH THE BUDGET INFORMATION IT MAY REQUEST;

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(7) PROVIDE THE LEGISLATIVE FINANCE DIVISION WITH AN ADVANCE COPY OF THE GOVERNOR'S BUDGET WORKBOOKS BY THE FIRST MONDAY IN JANUARY OF EACH SECOND REGULAR LEGISLATIVE SESSION; [YEAR, EXCEPT THAT FOLLOWING A GUBERNATORIAL ELECTION YEAR THE ADVANCE COPY SHALL BE PROVIDED BY THE SECOND MONDAY IN JANUARY.]

(8) PREPARE THE PROPOSED CAPITAL IMPROVEMENTS BUDGET FOR THE SUCCEEDING BUDGET PERIOD [COMING FISCAL YEAR] EVALUATING BOTH STATE AND LOCAL REQUESTS FROM THE STANDPOINT OF NEED, EQUITY, AND PRIORITIES OF THE JURISDICTION; OTHER FACTORS SUCH AS PROJECT AMOUNTS, POPULATION, LOCAL FINANCIAL MATCH, FEDERAL FUNDS BEING USED FOR LOCAL MATCH, MUNICIPALITY OR UNINCORPORATED COMMUNITY ACCEPTANCE OF THE FACILITY, AND ALL ASSOCIATED COSTS OF THE FACILITY MAY BE CONSIDERED.

* SEC. 17. AS 37.07.050(A) IS AMENDED TO READ:

(A) EACH STATE AGENCY, ON THE DATE AND IN THE FORM AND CONTENT PRESCRIBED BY THE OFFICE, SHALL PREPARE AND FORWARD TO THE OFFICE AND THE LEGISLATIVE FINANCE DIVISION

(1) THE GOALS AND OBJECTIVES OF THE AGENCY PROGRAMS, TOGETHER WITH PROPOSED SUPPLEMENTS, DELETIONS AND REVISIONS;

(2) ITS PROPOSED PLANS TO IMPLEMENT THE GOALS AND OBJECTIVES, INCLUDING ESTIMATES OF FUTURE SERVICE NEEDS, PLANNED METHODS OF ADMINISTRATION, PROPOSED MODIFICATION OF EXISTING PROGRAM SERVICES AND ESTABLISHMENT OF NEW PROGRAM SERVICES, AND THE ESTIMATED RESOURCES NEEDED TO CARRY OUT THE PROPOSED PLAN;

(3) THE BUDGET REQUESTED TO CARRY OUT ITS PROPOSED PLANS IN THE SUCCEEDING TWO FISCAL YEARS [YEAR], INCLUDING INFORMA-

TION REFLECTING THE EXPENDITURES DURING THE LAST TWO FISCAL YEARS [YEAR], THOSE AUTHORIZED FOR THE CURRENT FISCAL YEAR, THOSE PROPOSED FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR], AN EXPLANATION OF THE SERVICES TO BE PROVIDED, THE NUMBER OF TOTAL POSITIONS FOR ALL PERSONS EMPLOYED OR UNDER CONTRACT BY THE AGENCY FOR PERSONAL SERVICES INCLUDING THOSE RENDERED FOR CAPITAL IMPROVEMENT PROJECTS, THE NEED FOR THE SERVICES, THE COST OF THE SERVICES, AND ANY OTHER INFORMATION REQUESTED BY THE OFFICE;

(4) A REPORT OF THE RECEIPTS DURING THE LAST TWO FISCAL YEARS [YEAR], AN ESTIMATE OF THE RECEIPTS DURING THE CURRENT FISCAL, AND AN ESTIMATE FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR];

(5) A STATEMENT OF LEGISLATION REQUIRED TO IMPLEMENT THE PROPOSED PROGRAMS AND FINANCIAL PLANS;

(6) AN EVALUATION OF THE ADVANTAGES AND DISADVANTAGES OF SPECIFIC ALTERNATIVES TO EXISTING OR PROPOSED PROGRAM POLICIES OR ADMINISTRATIVE METHODS.

* SEC. 18. AS 37.07.050(F) IS AMENDED TO READ:

(F) BUDGET REQUESTS FOR BOARD AND COMMISSIONS AND FOR THOSE AGENCY PROGRAMS FOR THE TWO FISCAL YEARS [YEAR] FOLLOWING TERMINATION UNDER AS 44.66 SHALL BE PREPARED AND SUBMITTED. THE RECOMMENDED APPROPRIATION REQUEST SHALL INCLUDE:

(1) AN IDENTIFICATION OF THE OBJECTIVES INTENDED FOR THE PROGRAM AND THE PROBLEM OR NEED WHICH THE ACTIVITIES AND OPERATIONS OF THE BOARD, COMMISSION OR PROGRAM IS INTENDED TO ADDRESS;

(2) AN ASSESSMENT OF THE DEGREE TO WHICH THE ORIGINAL

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OBJECTIVES OF THE PROGRAM HAVE BEEN ACHIEVED EXPRESSED IN TERMS OF PERFORMANCE, EFFECTS, OR ACCOMPLISHMENTS OF THE PROGRAM AND OF THE PROGRAM OR NEED WHICH IT WAS INTENDED TO ADDRESS;

(3) A STATEMENT OF THE PERFORMANCE AND ACCOMPLISHMENTS OF THE PROGRAM IN EACH OF THE LAST FOUR COMPLETED FISCAL YEARS AND OF THE COSTS INCURRED IN THE OPERATION OF THE PROGRAM;

(4) A STATEMENT OF THE NUMBER AND TYPES OF PERSONS AFFECTED BY THE OPERATION OF THE PROGRAM;

(5) A SUMMARY STATEMENT, FOR EACH OF THE LAST THREE COMPLETED FISCAL YEARS, OF THE NUMBER OF PERSONNEL EMPLOYED IN CARRYING OUT THE PROGRAM AND A SUMMARY OF THE COST OF PERSONNEL EMPLOYED UNDER CONTRACT IN CARRYING OUT THE PROGRAM;

(6) AN ASSESSMENT OF THE EFFECT OF THE PROGRAM ON THE ECONOMY OF THE STATE;

(7) AN ASSESSMENT OF THE DEGREE TO WHICH THE OVERALL POLICIES OF THE PROGRAM, AS EXPRESSED IN REGULATIONS ADOPTED BY THE AGENCY, BOARD OR COMMISSION AND ITS DECISIONS, MEET THE OBJECTIVES OF THE LEGISLATURE IN ESTABLISHING THE PROGRAM; AND

(8) AN ANALYSIS OF THE SERVICES AND PERFORMANCE ESTIMATED TO BE ACHIEVED IF THE LIFE OF THE AGENCY, BOARD OR COMMISSION WERE TO BE CONTINUED;

(9) ALL GOALS AND OBJECTIVES, PLANS, PROGRAM, ESTIMATES, BUDGETS, AND OTHER DOCUMENTS FORWARDED TO THE OFFICE OF MANAGEMENT AND BUDGET BY A STATE AGENCY UNDER THIS SECTION ARE PUBLIC INFORMATION AFTER THE DATE THEY ARE FORWARDED.

*** SEC. 19. AS 37.07.060 IS AMENDED TO READ:**

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SEC. 37.07.060. GOVERNOR'S RECOMMENDATION. (A) THE GOVERNOR SHALL FORMULATE THE OPERATING AND CAPITAL IMPROVEMENTS PROGRAMS AND FINANCIAL PLANS REQUIRED TO BE RECOMMENDED TO THE LEGISLATURE BY AS 37.07.020 AFTER CONSIDERING THE STATE AGENCY PROPOSED PROGRAM AND FINANCIAL PLANS, AND OTHER PROGRAMS AND ALTERNATIVES THAT THE GOVERNOR CONSIDERS APPROPRIATE. THE PLANS MUST INCLUDE THE GOVERNOR'S RECOMMENDED GOALS AND POLICIES, RECOMMENDED PLANS TO IMPLEMENT THE GOALS AND POLICIES, RECOMMENDED OPERATING PROGRAM FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR], RECOMMENDED CAPITAL IMPROVEMENTS PROGRAM FOR THE SUCCEEDING SIX FISCAL YEARS, RECOMMENDED PROGRAMS FOR THE UPGRADING OF PUBLIC BUILDINGS AND FACILITIES PREPARED IN ACCORDANCE WITH AS 35.10.015, AND RECOMMENDED REVENUE MEASURES TO SUPPORT THE PROGRAMS.

(B) THE GOVERNOR SHALL PRESENT THE PROPOSED COMPREHENSIVE OPERATING AND CAPITAL IMPROVEMENTS PROGRAMS AND FINANCIAL PLANS IN A MESSAGE TO A JOINT SESSION OF THE LEGISLATURE BEFORE THE FOURTH LEGISLATIVE DAY FOLLOWING THE CONVENING OF THE LEGISLATURE IN EACH SECOND REGULAR SESSION. THE MESSAGE SHALL BE ACCOMPANIED BY AN EXPLANATORY REPORT THAT SUMMARIZED RECOMMENDED GOALS, PLANS, AND APPROPRIATIONS. THE REPORT MUST CONTAIN

(1) THE COORDINATED PROGRAM GOALS AND OBJECTIVES WHICH THE GOVERNOR RECOMMENDS TO GUIDE THE DECISIONS ON THE PROPOSED PROGRAM PLANS AND BUDGET APPROPRIATIONS;

(2) THE GOVERNOR'S OPERATING PROGRAM AND BUDGET RECOMMENDATIONS FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR] ORGANIZED BY AGENCY AS REQUIRED BY AS 37.07.020(A);

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(3) THE GOVERNOR'S CAPITAL IMPROVEMENTS PROGRAM AND BUDGET RECOMMENDATIONS FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR] AND CAPITAL IMPROVEMENTS PROGRAM FOR THE SUCCEEDING SIX FISCAL YEARS WHICH MUST INCLUDE

(A) A DESCRIPTION OF EACH PROJECT, ITS ESTIMATED COST FOR THE YEAR CONSTRUCTION IS TO START AND THE ESTIMATED COST OF THE PROJECT ADJUSTED FOR INFLATION OVER THE ESTIMATED PERIOD OF CONSTRUCTION, AND THE SOURCE OF FINANCING FOR THE PROJECT; THE PROJECT DESCRIPTION FOR A NEW BUILDING OR A NEW FACILITY OR FOR A MAJOR ADDITION TO A BUILDING OR FACILITY SHOULD INCLUDE A SITE PLAN, PRELIMINARY DRAWINGS, AND ARCHITECT'S OR ENGINEER'S TOTAL COST ESTIMATE FOR THE PROJECT;

(B) A SUMMARY OF PROJECTS PREVIOUSLY AUTHORIZED AND NOT YET COMPLETED;

(C) A SUMMARY, LISTED BY AGENCY, OF ALL PREVIOUSLY PROPOSED PROJECTS THAT HAVE BEEN DEFERRED BEYOND THE SIX YEARS COVERED BY THE PLAN AND THE YEAR IN WHICH CONSTRUCTION HAS BEEN RESCHEDULED TO BEGIN;

(D) A FORECAST OF THE DEBT STRUCTURE OF THE STATE AND THE VARIOUS DEBT RATIOS OVER THE LIFE OF THE STATE'S BONDS OUTSTANDING, BONDS AUTHORIZED AND TO BE ISSUED, AND BOND AUTHORIZATIONS RECOMMENDED IN THE PLAN;

(E) A DESCRIPTION OF ADDITIONAL REVENUE MEASURES NEEDED TO FINANCE THE PLAN IN LIEU OF DEBT;

(F) BOND ELECTION BILLS TO AUTHORIZE THE BONDS REQUIRED TO FUND THE PROJECTS SCHEDULED FOR THE FIRST THREE YEARS OF THE PLAN;

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(G) PROJECTIONS OF POPULATION OF THE STATE AND ITS REGIONS AND COMMUNITIES;

(H) ECONOMIC DATA AND PROJECTIONS NECESSARY FOR THE EVALUATION OF THE PLAN;

(4) A SUMMARY OF STATE RECEIPTS IN THE LAST TWO FISCAL YEARS [YEAR], A REVISED ESTIMATE FOR THE CURRENT FISCAL YEAR, AND AN ESTIMATE FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR];

(5) A SUMMARY OF EXPENDITURES DURING THE LAST TWO FISCAL YEARS [YEAR], THOSE AUTHORIZED FOR THE CURRENT FISCAL YEAR, AND AN ESTIMATE FOR THE SUCCEEDING TWO FISCAL YEARS [YEAR];

(6) ANY ADDITIONAL INFORMATION WHICH WILL FACILITATE UNDERSTANDING OF THE GOVERNOR'S PROPOSED PROGRAMS AND FINANCIAL PLANS BY THE LEGISLATURE AND THE PUBLIC.

* SEC. 20. AS 37.13.150 IS AMENDED TO READ:

SEC. 37.13.150. CORPORATION BUDGET. THE REVENUE GENERATED BY THE FUND'S INVESTMENTS MUST BE IDENTIFIED AS THE SOURCE OF THE OPERATING BUDGET OF THE CORPORATION IN THE STATE'S OPERATING BUDGET UNDER AS 37.07 (EXECUTIVE BUDGET ACT). THE UNEXPENDED BALANCE OF THE CORPORATION'S BIENNIAL [ANNUAL] OPERATING BUDGET DOES NOT LAPSE AT THE END OF THE FISCAL YEAR BUT SHALL BE TREATED AS INCOME UNDER AS 37.13.140.

* SEC. 21. AS 38.04.020(E) IS AMENDED TO READ:

(E) THE COMMISSIONER SHALL [ANNUALLY] SUBMIT TO THE GOVERNOR AN APPROPRIATION REQUEST FOR FUNDING ESTIMATED TO BE NECESSARY FOR THE NEXT FOUR [TWO] YEARS TO ALLOW

(1) SURVEY AND DISPOSAL OF LAND PROPOSED TO BE MADE

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AVAILABLE FOR HOMESTEAD STAKING, WITH THE GENERAL LOCATION OF THE LAND;

(2) SURVEY AND DISPOSAL OF LAND TO BE OFFERED AS AGRICULTURAL, COMMERCIAL, INDUSTRIAL, OR OTHER USES UNDER AS 38.05.055 OR 38.05.057, WITH THE GENERAL LOCATION OF THE LAND;

(3) THE SURVEY AND DISPOSAL OF LAND PROPOSED TO BE OFFERED AS SUBDIVISIONS, WITH THE GENERAL LOCATION OF THE LAND;

(4) PRELIMINARY FEASIBILITY STUDIES, ENGINEERING DESIGN WORK, RIGHT-OF-WAY ACQUISITION, AND CONSTRUCTION OF ACCESS ROADS AND CAPITAL IMPROVEMENTS REQUIRED BY MUNICIPAL SUBDIVISION ORDINANCE OR REGULATION OF THE PLATTING AUTHORITY;

(5) IDENTIFICATION OF LAND THAT WILL BE PROPOSED FOR DISPOSAL UNDER THIS SUBSECTION IN FUTURE FISCAL YEARS.

* SEC. 22. AS 39.30.050 IS AMENDED TO READ:

SEC. 39.30.050. ADMINISTRATIVE COSTS. THE DEPARTMENT SHALL COLLECT FROM EACH PARTICIPATING POLITICAL SUBDIVISION ITS RESPECTIVE PRO RATA SHARE OF THE EXPENSES INCURRED IN THE ADMINISTRATION OF AS 39.30.010 - 39.30.080. THE AMOUNTS COLLECTED FROM PARTICIPATING POLITICAL SUBDIVISIONS, TOGETHER WITH MONEY APPROPRIATED BY THE STATE FOR COVERING THE STATE'S SHARE OF ADMINISTRATIVE COSTS, SHALL BE DEPOSITED IN AN FICA ADMINISTRATION FUND AND ARE NOT ALLOWABLE TO ANY OTHER PURPOSE. EXPENDITURES FROM THE FICA ADMINISTRATION FUND SHALL BE INCLUDED IN THE GOVERNOR'S BUDGET FOR EACH FISCAL YEAR AND ARE SUBJECT TO APPROPRIATION BY THE LEGISLATURE. AT THE TIME OF PREPARATION OF THE GOVERNOR'S BIENNIAL [ANNUAL] BUDGET THE DEPARTMENT SHALL REVIEW THE FICA ADMINISTRATION FUND

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AND ADJUST THE RATE OF ASSESSMENT ON POLITICAL SUBDIVISIONS SO AS TO PREVENT THE ACCUMULATION OF MORE MONEY THAN IS NEEDED TO ADMINISTER AS 39.30.010 - 39.30.080.

* SEC. 23. AS 41.98.170 IS AMENDED TO READ:

SEC. 41.98.170. FUND CREATED. THERE IS IN THE DEPARTMENT AN OUTDOOR RECREATIONAL, OPEN SPACE, AND HISTORIC PROPERTIES DEVELOPMENT FUND TO BE ADMINISTERED BY THE DIVISION OF PARKS. APPROPRIATIONS OR OTHER MONEY DEPOSITED IN THE FUND SHALL BE UTILIZED BY THE DEPARTMENT TO PAY THE NONFEDERAL SHARE OF COSTS OF PROJECTS WHICH ARE INITIATED BY THE STATE TO ACQUIRE, DEVELOP, OR EXTEND OUTDOOR RECREATION SITES AND FACILITIES AND TO ACQUIRE, PRESERVE, OR PROTECT HISTORIC SITES, BUILDINGS AND MONUMENTS. PLANS FOR EXPENDITURES FROM THE FUND SHALL BE SUBMITTED BY THE GOVERNOR IN ACCORDANCE WITH AS 37.07 (EXECUTIVE BUDGET ACT) AS PART OF THE BIENNIAL [ANNUAL] BUDGET PRESENTATION TO THE LEGISLATURE.

* SEC. 24. AS 43.40.010(I) IS AMENDED TO READ:

(I) WITHIN 30 DAYS AFTER THE LEGISLATURE CONVENES IN EACH SECOND REGULAR SESSION THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES SHALL SUBMIT A BIENNIAL [ANNUAL] BUDGET COVERING ANTICIPATED REVENUES AND THEIR EXPENDITURE, FOR THE CONSIDERATION AND APPROVAL BY THE LEGISLATURE. THE BUDGET SHALL COVER ALL MONEY COLLECTED OR ANTICIPATED TO BE COLLECTED UNDER THIS CHAPTER FOR THE TWO YEARS [YEAR] FOLLOWING THE ADJOURNMENT OF EACH SECOND REGULAR SESSION OF THE LEGISLATURE.

* SEC. 25. AS 43.76.030 IS AMENDED TO READ:

SEC. 43.76.030. ACCOUNTING OF FINANCING RECEIVED AS A RESULT

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OF THE SALMON ENHANCEMENT TAX. A QUALIFIED REGIONAL ASSOCIATION REQUESTING STATE FINANCIAL ASSISTANCE IN ACCORDANCE WITH AS 43.76.-025(c) SHALL SUBMIT AN ANNUAL FINANCIAL REPORT TO THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT ON A FORM PROVIDED BY THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT. THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT MAY, BY REGULATION, REQUIRE THAT A QUALIFIED REGIONAL ASSOCIATION USE A UNIFORM SYSTEM OF ACCOUNTING. A QUALIFIED REGIONAL ASSOCIATION REQUESTING STATE ASSISTANCE SHALL SUBMIT A BIENNIAL [AN ANNUAL] BUDGET TO THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT ON OR BEFORE THE DATE SPECIFIED BY THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT.

* SEC. 26. AS 44.68.250 IS AMENDED TO READ:

SEC. 44.68.250. ADDITIONS AND REPLACEMENTS TO FUND. ADDITIONS TO THE CAPITAL EQUIPMENT, REPLACEMENTS OF CAPITAL EQUIPMENT, OR IMPROVEMENTS PAID FROM THE HIGHWAYS EQUIPMENT WORKING CAPITAL FUND ARE SUBJECT TO [ANNUAL] APPROPRIATION BY THE LEGISLATURE AND MUST BE DETAILED IN THE EXECUTIVE BUDGET.

* SEC. 27. AS 44.83.396(e) IS AMENDED TO READ:

(e) WHEN THE AUTHORITY PERMITS A POWER PROJECT TO BE OPERATED BY A QUALIFIED UTILITY UNDER A CONTRACT OR LEASE, THE AUTHORITY SHALL

(1) REVIEW AND APPROVE THE BIENNIAL [ANNUAL] BUDGET FOR THE OPERATION AND MAINTENANCE OF THE POWER PROJECT; AND

(2) ASSURE THAT THE PROJECT IS BEING OPERATED EFFICIENTLY AND IN A MANNER THAT IS CONSISTENT WITH NATIONAL STANDARDS FOR THE INDUSTRY AND AGREEMENTS WITH BONDHOLDERS.

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- * **SEC. 28. AS 44.85.110 IS AMENDED TO READ:**

SEC. 44.85.110. BIENNIAL [ANNUAL] BUDGET. THE BOND BANK AUTHORITY SHALL PREPARE AND SUBMIT A BIENNIAL [AN ANNUAL] BUDGET UNDER AS 37.07 (EXECUTIVE BUDGET ACT).

- * **SEC. 29. AS 44.99.009(c) IS AMENDED TO READ:**

(c) THE GOVERNOR SHALL SUBMIT AS PART OF THE BIENNIAL [ANNUAL] BUDGET SUBMISSION TO THE LEGISLATURE A COMPLETE PROGRAM BUDGET FOR STATE PARTICIPATION IN THE COMPREHENSIVE EMPLOYMENT AND TRAINING ACT OF 1973 (P.L. 93-203) AS AMENDED.

- * **SEC. 30. AS 47.80.090 IS AMENDED TO READ:**

SEC. 47.80.090. RESPONSIBILITIES. THE COUNCIL SHALL

(1) SERVE AS A FORUM BY WHICH ISSUES AND BENEFITS REGARDING CURRENT AND POTENTIAL SERVICES TO DISABLED AND GIFTED PERSONS MAY BE DISCUSSED BY CONSUMER, PUBLIC, PRIVATE, PROFESSIONAL, AND LAY INTERESTS;

(2) ADVOCATE THE NEEDS OF DISABLED AND GIFTED PERSONS BEFORE THE EXECUTIVE AND LEGISLATIVE BRANCHES OF THE STATE GOVERNMENT AND BEFORE THE PUBLIC;

(3) ADVISE THE EXECUTIVE AND LEGISLATIVE BRANCHES OF THE STATE GOVERNMENT AND THE PRIVATE SECTOR ON PROGRAMS AND POLICIES PERTAINING TO CURRENT AND POTENTIAL SERVICES TO DISABLED OR GIFTED PERSONS AND THEIR FAMILIES;

(4) SUBMIT PERIODIC REPORTS TO THE COMMISSIONER OF HEALTH AND SOCIAL SERVICES, THE COMMISSIONER OF EDUCATION AND TO OTHER APPROPRIATE DEPARTMENTS, ON THE EFFECTS OF CURRENT FEDERAL AND STATE PROGRAMS REGARDING SERVICES TO DISABLED OR GIFTED PERSONS;

DRAFT

THESE REPORTS MUST INCLUDE PROGRAM PERFORMANCE REPORTS TO THE GOVERNOR, THE FEDERAL GOVERNMENT, AND TO STATE AGENCIES AS REQUIRED UNDER 20 U.S.C. 1482 AND 42 U.S.C. 6024;

(5) IN CONJUNCTION WITH THE DEPARTMENTS OF HEALTH AND SOCIAL SERVICES AND EDUCATION, DEVELOP, PREPARE, ADOPT, PERIODICALLY REVIEW, AND REVISE AS NECESSARY AN ANNUAL STATE PLAN PRESCRIBING PROGRAMS WHICH MEET THE NEEDS OF PERSONS WITH DEVELOPMENTAL DISABILITIES AS REQUIRED UNDER 42 U.S.C. 6022;

(6) REVIEW AND COMMENT TO COMMISSIONERS OF STATE DEPARTMENTS ON ALL STATE PLANS AND PROPOSED REGULATIONS RELATING TO PROGRAMS FOR PERSONS WHO ARE EXPERIENCING DISABILITIES BEFORE THE ADOPTION OF A PLAN OR REGULATION; FOR THIS PURPOSE, THE APPROPRIATE DEPARTMENTS SHALL SUBMIT THE PLANS AND PROPOSED REGULATIONS TO THE COUNCIL;

(7) RECOMMEND THE PRIORITIES AND SPECIFICATIONS FOR THE USE OF FUNDS RECEIVED BY THE STATE UNDER 42 U.S.C. 6000 - 6083;

(8) SUBMIT BIENNIALY [ANNUALLY] TO THE COMMISSIONER OF HEALTH AND SOCIAL SERVICES, THE COMMISSIONER OF EDUCATION, AND THE COMMISSIONER OF COMMUNITY AND REGIONAL AFFAIRS A PROPOSED INTERDEPARTMENTAL PROGRAM BUDGET FOR SERVICES TO DISABLED OR GIFTED PERSONS THAT INCLUDES, INSOFAR AS POSSIBLE, PROJECTED REVENUES AND EXPENDITURES FOR PROGRAMS IMPLEMENTED BY STATE AGENCIES, LOCAL GOVERNMENTAL AGENCIES, AND PRIVATE ORGANIZATIONS; THE INTERDEPARTMENTAL PROGRAM BUDGET IS AN INFORMATIONAL SUPPLEMENT TO THE REGULAR BIENNIAL [ANNUAL] BUDGETARY SUBMISSIONS OF THE DEPARTMENTS TO THE OFFICE OF THE GOVERNOR;

DRAFT

(9) PROVIDE INFORMATION AND GUIDANCE FOR THE DEVELOPMENT OF APPROPRIATE SPECIAL EDUCATIONAL PROGRAMS AND SERVICES FOR EXCEPTIONAL CHILDREN AS DEFINED IN AS 14.30.350;

(10) MONITOR AND EVALUATE BUDGETS OR OTHER IMPLEMENTATION PLANS AND PROGRAMS FOR DISABLED AND GIFTED PERSONS TO ASSURE NON-DUPLICATION OF SERVICES AND ENCOURAGE EFFICIENT AND COORDINATED USE OF FEDERAL, STATE AND PRIVATE RESOURCES IN THE PROVISION OF SERVICES; MEMBERS OF THE COUNCIL, WITH THE APPROVAL OF THE COUNCIL, HAVE ACCESS TO INFORMATION IN THE POSSESSION OF STATE AGENCIES SUBJECT TO DISCLOSURE RESTRICTIONS IMPOSED BY STATE OR FEDERAL CONFIDENTIALITY OR PRIVACY LAWS;

(11) PERFORM OTHER DUTIES REQUIRED UNDER APPLICABLE FEDERAL LAWS, OR AS 14.30.231, AND AS THE GOVERNOR MAY ASSIGN;

(12) GOVERN THE SPECIAL EDUCATION SERVICE AGENCY AND MAY HIRE PERSONNEL NECESSARY TO OPERATE THE AGENCY; AND

(13) PROVIDE TO THE ALASKA MENTAL HEALTH TRUST AUTHORITY FOR ITS REVIEW AND CONSIDERATION RECOMMENDATIONS CONCERNING THE INTEGRATED COMPREHENSIVE MENTAL HEALTH PROGRAM FOR THE PEOPLE OF THE STATE WHO ARE DESCRIBED IN AS 47.30.056(B) (2) AND THE USE OF THE MONEY IN THE MENTAL HEALTH TRUST INCOME ACCOUNT IN A MANNER CONSISTENT WITH REGULATIONS ADOPTED UNDER AS 47.30.031.

*** SEC. 30. THIS ACT TAKES EFFECT ON THE EFFECTIVE DATE OF AN AMENDMENT TO ART. IX, SEC. 12, OF THE CONSTITUTION OF THE STATE OF ALASKA, PROVIDING FOR A BIENNIAL STATE BUDGET.**

Gordon
Harrison

3971

No ~~stall~~ done.

Forward-Funding

- Docs have some reports

- for my file: 3/84 ESEK
② '84 Cash & Bond Budg OMB
③ These mean also

GEORGE

Findling

c ALCO.

re: Fwd Funding

per Jean Von Doremus

Bonnie L. Jack
1063 West 20th Avenue
Anchorage, AK 99503-1714
907-279-4836 home/work/fax
December 6, 1994

Gail Phillips
Speaker of the House-elect
PO Box 3304
Homer, AK 99603

Speaker-elect Gail:

First, congratulations!

An article in the *Anchorage Daily News*, November 22, talked of your plans of funding the state's operating budget a year in advance. Fantastic idea! As you might remember, I worked for Joe Hayes (we won't talk about how many years ago that was) when that idea was originally put forth. I supported it then and I certainly support it now. A few other states forward funded their budgets, if I remember correctly. (At least back then.) I don't remember which ones, but House Research could find out.

The *News* quoted various people as to why the idea won't work. The *Alaska Journal of Commerce's* editorial in the December 5 issue was only warm support for your idea. Don't let them get you down. This is probably the last year the idea could work unless the Permanent Fund were used.

What can I do to help promote this? As you might know, I produce, with oversight from the board, the Alaska Women's Political Caucus newsletter and probably will be producing a joint newsletter of the Anchorage Republican Women's Club and RAP&BW (if we decide to continue). Please keep me informed so these two publications can be used to support this idea and the readers can not only be informed but be called to action when need be. The AWPC newsletter is mailed to approximately 500 women statewide, including the media and, although I'm not sure, I think the Republican Women's Club newsletter is mailed to about 250 women, mostly in Anchorage; I don't know if the media receives a copy.

Again, a great idea that has reached its time. And, congratulations.



FORWARD FUNDING

Forward funding has been proposed and debated in Alaska state government for the better part of fifteen years. Its attractiveness - - in terms of the certainty it would add to the budgeting process - - is widely recognized and accepted.

Nevertheless, proposals to adopt cash-based budgeting generally have foundered on the question of whether the gain in budgeting certainty is worth the opportunity cost of the revenue that must be diverted to achieve that certainty.

Surrounding the debate also has been the largely unaddressed but relevant question of whether budgeting certainty and fiscal stability can be equally or better achieved through the use of reserve funds, spending limits, and other such fiscal mechanisms.

KEY POINTS

- The term "forward funding" means different things to different people. As used here, it refers to a system whereby the budget for a coming fiscal year is based on an amount of cash already on hand at the time that those budgeting decisions are being made - - i.e., it refers to a "*cash-based budgeting*" system.

In this regard, it is different from such budgeting approaches as "*fast track budgeting*" and "*biennial budgeting*".¹

- Cash-based budgeting would not, in itself, stabilize the amount of revenue that the State receives from one year to the next. Rather, it would enable policy makers to know, with a high degree of certainty,² and at the time that budgeting decisions were being made for a coming year, just how much money was already on hand for that coming year's budget.

In this regard, a cash-based budgeting fund would serve as - - and be functionally indistinguishable from - - a reserve fund.³ The chief difference would be that, being essentially a dedicated reserve fund, its flexibility of use would be limited.

¹ "Fast track" budgeting refers to the practice of establishing a funding level for one or more categories of the budget (e.g., education) before establishing a funding level for the budget as a whole. "Biennial" (or similar) budgeting refers to a system whereby budget funding levels are set for more than one year at a time. Under either approach, the budgeting can be based either on cash on hand, or on the level of revenues expected during the year(s) being budgeted.

² It would still be necessary to project the amount of revenue likely to be received between the time the Legislature was meeting and the end of the current fiscal year. Such remaining-months projections, however - - e.g., as contained in the annual March revenue forecast - - generally turn out to have been within 3% or less of the amount actually received through June 30.

³ That is: (1) it would represent a pot of money that could be used (either alone, or in combination with future or other current sources of revenue) to eliminate or reduce the risk of funding shortfalls caused by unexpected changes in revenue receipts; and, (2) it could serve as a mechanism for providing the State with lag time to react to known changes in fiscal outlook.

- Cash-based budgeting also would not, in itself, lead to reductions in state government spending. If revenue receipts were to increase, the amount available for budgeting also would increase. Only the timing would change. In fact, it is only the coupling of cash-based budgeting with a spending limit that would impose any spending discipline - - and it is not clear whether, in fact, there would be any difference in spending discipline under a forward funding regime with a spending limit as opposed to under the current (prospective-revenues) budgeting regime; or, whether a binding spending limit would function better (or even differently) under a cash-based funding regime.
- Using reserve funds to establish a cash-based funding system would reduce the effectiveness and potential utility of those funds. Specifically, devoting one or two billion dollars from existing reserve balances⁴ to finance a cash-based budgeting system would:
 - dramatically reduce the effectiveness of those reserves as a "buffer" or "cushion" for dealing with any future revenue shortfalls; and,
 - also would reduce the availability of current reserve funds as a funding source for financing other potential uses - - e.g., to underwrite program investments in other areas, such as an economic development agenda.
- Putting only part of the operating budget (e.g., 1-2 programs) on a cash-based budgeting basis could prove confusing and complicate development and legislative passage of the budget - - e.g., preparation of annual spending plans, treatment of supplemental appropriations, receipt of federal funds, etc.

⁴ It would take roughly one year's worth of operating budget revenue to finance a full conversion to cash-based budgeting.

SCOMM

101:90

Legislative Research Agency

Alaska State Legislature



130 Seward Street, Suite 218
Juneau, Alaska 99801-2196

Phone: (907) 465-3991
Fax: (907) 463-3351

May 4, 1995

MEMORANDUM

TO: Representative Kay Brown

FROM: Gordon S. Harrison, Director 

RE: **Comparative Patterns of State Spending**
Research Request 95.195

You asked us to compare spending patterns by Alaska state government with spending patterns in the other states. We presume from the material accompanying this request that you are interested in examining the hypothesis that the State of Alaska devotes an inordinately generous proportion of its resources to activities and services that are not provided in the other states and a comparatively paltry proportion of its resources to the basic services such as education, welfare, and prisons that dominate the budgets of the other states.

On the one hand, statistical data compiled by the U.S. Census Bureau seem to support this hypothesis, as they show that as a percentage of total annual spending, our outlays in several of the basic service categories are comparatively low, and our outlays in the "other" category are comparatively large. On the other hand, the data also show that, on a per capita basis, Alaska devotes far more resources to basic services than the national average, and often more than any of the other 49 states, despite our substantial expenditures on extraneous items. In addition, a close examination of the statistical data reveals that the "other" category is composed mostly of expenditures by Alaska's public corporations. With the exception of permanent fund dividends, this money is not available for discretionary appropriation by the legislature, and including it in the statistical base tends to understate our allocation of general fund spending for basic services. These and other factors discussed in this memorandum complicate greatly the comparative analysis of spending in the 50 states. Nonetheless, we believe that the data *do not* support the conclusion that Alaska stints the basic services of state government.

The narrative below begins with a discussion of the statistical data on state government finances compiled by the U.S. Bureau of the Census. Then it considers the importance of differences among states when comparing spending habits. Finally, it presents data that compare state government spending in Alaska with the U.S. average and with state spending in Hawaii.

Representative Brown

May 4, 1995

Page 2

U.S. Bureau of the Census Annual Survey of State Government Finances

The only source of comprehensive statistics on state government spending in the United States is the U.S. Census Bureau, which conducts an annual survey of state and local government finances. All multi-state comparisons of government spending use this data. While it might be feasible for analysts in one state to compare their state government spending with the spending of a neighboring state using their own format, definitions, accounting methods, and categories, it would not be feasible to broaden the scope of that comparison by much, and certainly not to all 50 states. The institutional arrangements, the allocation of services among state agencies and between levels of government, and the budgeting conventions and financial reporting of the 50 states vary so enormously and mysteriously that the task of comparing spending among them is beyond the resources of any organization except perhaps the federal government. Indeed, it is not clear that the comparative analysis produced by the U.S. Census Bureau is useful for making any but the most general assessments of spending priorities in the various states.

Census Bureau data on state government revenue and expenditures are presented in a series of publications titled *State Government Finances*. This series lags by several years. The last "hard copy" edition is for FY 92. Subsequent editions and all future editions are available only in electronic format from the Internet. The data appear in somewhat different formats in publications such as *Book of the States*, by the Council of State Governments, and *Significant Features of Fiscal Federalism*, by the U.S. Advisory Council on Intergovernmental Relations. Attached to this memorandum are a copy of Table 11 from the federal *State Government Finances: 1992*, and a condensed presentation of the data from the *Book of the States, 1994-95*. Because the latter is simplified and widely available, we have used it to prepare the table in this memorandum.

People familiar with Alaska's annual budgets--that is, with our annual *appropriations*--will recognize few of the numbers in the data series. This is because the data series records *expenditures* rather than appropriations. Thus, for example, capital expenditures recorded for a particular year may have been appropriated several years earlier. Furthermore, the data includes major expenditures that are "off budget"--that is, expenditures that are not considered to represent withdrawals from the general fund. For FY 92, these include interest expense of revenue bonds issued by the Alaska Housing Finance Corporation (\$287.3 million), the Alaska Industrial Development and Export Authority (\$99.7 million), the Student Loan Corporation (\$1.1.3 million), the Alaska Municipal Bond Bank (\$9.1 million), as well as the operating expenses of the Alaska Railroad Corporation (\$57.8 million). Also, the FY 92 Census Bureau expenditure data include the permanent fund dividends (\$496.3 million), but not the deposit of permanent fund income to the principal of the fund (inflation proofing) or to the reserve account. Although the use of permanent fund income is fully discretionary--that is, the money may be appropriated for any purpose--these expenditures are not treated in Alaska as general fund expenditures. It is noteworthy that the items identified above--interest payments on revenue bonds, the operating expense of the Alaska Railroad, and the permanent fund dividend, which amounted to \$961.5

million in FY 92--are all items that fall within the Census Bureau's category of "miscellaneous, not otherwise classified." As a result of this inflation of our total expenditure figure, our expenditures in categories such as education are depressed when shown as a percentage of total spending.

There are doubtless many such peculiarities of the data series that conceal, distort, or otherwise misinterpret spending patterns in the states. Another one that we are aware of in the Alaska data concerns our municipal assistance and revenue sharing programs. These are the primary programs the state has used to support a number of local government services, including hospitals.¹ However, because the grant money may be used for any purpose by the recipient (actually in the case of hospitals and health services it must be used for these purposes), the Census Bureau does not allocate it to functional categories. Consequently, the data show less support for hospitals by the state government than they would if we had a more direct distribution scheme for money targeted to support local hospitals.

But when attempting to compare one state's spending with others', we must consider more than the methodology of the statisticians: we must also consider differences among the states.

Differences Among States and State Spending Patterns

States differ widely with regard to many characteristics that affect their public spending, and these differences must be accounted for when seeking to discern whether one state has a stronger fiscal commitment to certain services than does another. For example, states differ in how they allocate governmental authority and fiscal responsibility for certain public services between the state and local level; they differ with respect to demographic characteristics; they differ in the cost of providing services; and they differ in endowment of natural resources.

State governments traditionally provide and pay for certain services, and local governments traditionally provide and pay for others. However, some services are often provided and paid for in some measure by *both* levels of government. In the case of these shared responsibilities, the mix of state and local funding varies considerably, and what is a shared responsibility in one state may not be in another. For this reason, a thorough comparison of state spending in certain areas must include expenditures by both the state *and* local government. (This memorandum concerns state spending only.) Schools are the most notable of these shared services. In all states except Hawaii and Alaska, education is provided by local school districts with state governments supplementing local funding through a revenue sharing "foundation program." In Hawaii, the state government directly operates and funds a statewide K-12 school system. In Alaska, we directly

¹The state revenue sharing program (AS 29.60.120) includes a grant of \$250,000 to each community with a hospital with 10 or more beds, or \$50,000 to each community with a hospital of fewer than 10 beds.

and fully fund the Rural Education Attendance Area schools, and support the municipal school districts through the foundation program and other grants.

Court systems are another shared responsibility in most states. Thus, most states have, in addition to state courts, a system of municipal courts with jurisdiction over violations of city and county ordinances and certain other matters. Alaska is one of a few states with a statewide, unified court system (violations of local law are prosecuted in state courts here). Therefore, Alaska state expenditures in the area of justice will be relatively higher than in states with local court systems, but our total state *and* local spending in this area may or may not be relatively higher than these other states.²

Demographic differences are also pertinent to interstate comparisons of spending patterns because they create different levels of *demand* for various public services. States with a high level of poverty can be expected to spend more on welfare than states without much poverty. Likewise, states with a large proportion of their population of school age can be expected to spend relatively more for education than states with a low proportion of young people; and states with a high crime rate should spend more for police and corrections. Because of demographic differences, equality of spending may not equate to equality of service. Although two states may devote the same percentage of their total spending to education, welfare, or corrections, they may be providing quite different levels of service if the target population is substantially larger in one than the other.

Equality of spending also fails to mean equality of service if there are substantial differences among states in the cost of doing business. That is, two states spending the same amount of money on a public service may be providing quite different levels of service if costs are significantly lower in one than the other. Generally speaking, costs of governmental services are more expensive in the urban, industrial northeast than in the rural south. Alaska is also a high-cost state, and this must be borne in mind when comparing our expenditures with similar expenditures by other state governments. Cost-of-living indices show that different urban areas in Alaska are from 1.1 to 1.6 times more expensive than the U.S. urban average.³

That different circumstances give rise to different demands for state services is seen clearly in the case of natural resources. Alaska spends proportionally more money managing natural resources than other states because it has vastly more natural resources to manage. Here, national norms are of little value in assessing the appropriate level of state spending in Alaska. No one would

²The same is true of corrections in Alaska: we have a unified, state-operated system of jails and prisons, in contrast to many other states that require city and county governments to provide and pay for local jails.

³John Boucher, "Measuring Alaska's Cost of Living," *Alaska Economic Trends* (published by the Alaska Department of Labor), June 1994.

seriously argue that Alaska should slash spending on natural resource management simply to bring the state into line with the national average of spending in this area.⁴

State Spending: U.S. Average, Hawaii, and Alaska

The accompanying table shows, for the 50 states, Hawaii, and Alaska, state spending in 11 categories. State spending is expressed as a percentage of total spending and as a dollar amount per state resident. Hawaii is included because it is the only other state that has such a large percentage of its spending fall in the "other" category. The data is derived from the *Book of the States, 1994-95*. The categories are condensed from categories used by the Census Bureau in compiling the data.

Clearly, Alaska's comparative standing depends on the measure of spending: as a percentage of total spending, Alaska is below the national average in a number of categories, including education (this category includes postsecondary education), public welfare, hospitals, and corrections. However, in terms of dollar spent per capita, we exceed the national averages in all categories except hospitals. Which is the better measure? Spending per capita seems the more reasonable of the two, in view of the fact that Alaska is relatively more wealthy than the other states.⁵ The average middle class family spends a much higher proportion of its income on housing than do the richest families, yet the richest families live in mansions. One cannot reasonably argue that the rich are not as committed to their domestic comfort as the middle class because they devote a smaller proportion of their income to housing.

Accordingly, one cannot argue that Alaska, with its high per capita spending levels, is insufficiently committed to educating its young or housing its criminals because our expenditures on these items is below the national average. The table shows that education accounted for 25.1 percent of Alaska's annual spending in FY 92, in contrast to the U.S. average of 34.6 percent, and 27.4 percent of state spending in Hawaii. However, we spent \$2,184 per resident of the state (not per

⁴Studies have attempted to compare state spending and account for the different circumstances of the states. One such study is by Herman B. Leonard, *By Choice or By Chance; Tracking the Values in Massachusetts' Public Spending* (Boston: Pioneer Institute for Public Policy Research, 1992). Footnote 6 on page 14 of this study says: "Alaska was excluded from all analysis and comparisons that follow because its spending patterns and circumstances are so radically different from those of other states." See also, Steven D. Gold, "A New Way to Compare State Spending," *State Legislatures*, May/June, 1989.

⁵Remember that our "wealth," represented in the table as an expenditure of state money of \$8,707 per capita, or 3.6 times the national average, is inflated by the inclusion of permanent fund dividends and interest payments on revenue bonds by our public corporations.

Representative Brown

May 4, 1995

Page 6

student) on education, or 2.6 times the national average, and almost twice as much as Hawaii. Indeed, when compared to Hawaii, where the school system is entirely a state-operated affair, education receives even more money in Alaska when local expenditures are counted.

The comparatively high per capita expenditures in Alaska are muted, of course, by the cost-of-living differential here. This cost-of-living differential is further magnified by the economic inefficiencies of delivering services such as education to far-flung, sparsely populated, rural sites. We have not attempted to factor these cost considerations, or Alaska's demographic characteristics, into a grand, multi-dimensional comparative analysis of Alaska's spending, largely because we see no rigorous methodology for doing so.⁶ In the final analysis, the Census Bureau data are ambiguous and largely inconclusive. While they do not allow Alaska's rank to be easily determined, neither do they offer much support to the notion that Alaska neglects the basic state services (as defined by the Census Bureau categories). An exception may be in the area of hospitals, which shows spending below the national average as a percent of total spending and on a per capita basis. But as suggested above, the cause of our poor showing here may be the peculiarities of the state revenue sharing mechanism rather than a genuinely penurious legislature.

I regret that sharper conclusions do not emerge from the statistical data, but I hope that this information is useful nonetheless.

Attachments

⁶Nor have we removed the uncategorized non-general fund items that so inflate Alaska's expenditure total, because we would also have to remove these items from the other states' totals to make consistent comparisons.

State Expenditures, by Function, FY 92 As a Percent of Total and Per Capita; All States, Hawaii, and Alaska

Category	All States			Hawaii			Alaska		
	Percent	Dollars Per Capita		Percent	Dollars Per Capita		Percent	Dollars Per Capita	Multiple of Per Capita National Average
Education	34.6%	\$831		27.4%	\$1,213		25.1%	\$2,184	2.6
Public Welfare	25.6%	\$614		12.2%	\$540		10.6%	\$923	1.5
Highways	7.8%	\$192		7.3%	\$324		11.4%	\$995	5.2
Hospitals	4.3%	\$103		3.8%	\$166		0.7%	\$63	0.6
Natural Resources	1.7%	\$41		2.5%	\$110		4.9%	\$430	10.5
Health	3.6%	\$86		4.6%	\$204		3.6%	\$311	3.6
Corrections	3.3%	\$79		2.1%	\$94		2.8%	\$247	3.1
Financial Administration	1.6%	\$38		1.6%	\$71		2.3%	\$199	5.2
Employment Security Administration	0.6%	\$15		0.2%	\$11		0.6%	\$51	3.4
Police	0.9%	\$22		0.2%	\$8		1.1%	\$95	4.3
Other	15.9%	\$383		38.1%	\$1,684		36.9%	\$3,209	8.4
Total	99.9%	\$2,404		100.0%	\$4,425		100.0%	\$8,707	3.6

Source: *Book of the States, 1994-95*, Table 6.16, pp. 352-353 (from U.S. Census Bureau data).

ATTACHMENT A

**"State Government Finances", *Government Finances*, Bureau of the Census,
U.S. Department of Commerce**

GF/92-3

GOVERNMENT FINANCES

State Government Finances: 1992



U.S. Department of Commerce
Economics and Statistics Administration
BUREAU OF THE CENSUS

Table 11. State Government General Expenditure by Function and State: 1992

(Thousand dollars. For meaning of abbreviations and symbols, see introductory text. Detail may not add to total because of rounding. See appendix B for explanatory notes.)

State	Educational services						Social services and income maintenance			
	Total	Intergovernmental	Direct	Education ¹			Libraries	Public welfare ¹		
				Total	Intergovernmental	Direct		Total	Intergovernmental	Direct
1	2	3	4	5	6	7	8	9	10	
United States.....	811 921 919	201 313 434	410 508 485	211 569 798	124 919 686	86 650 112	683 880	158 363 573	29 511 968	126 851 605
Alabama.....	8 788 293	2 143 312	6 644 981	3 570 524	1 699 130	1 871 394	8 122	1 853 436	10 079	1 843 357
Alaska.....	4 788 127	1 048 860	3 739 267	1 200 990	625 681	575 109	6 254	507 655	100 635	407 020
Arizona.....	8 235 841	2 996 879	5 238 962	2 929 888	1 663 378	1 265 910	6 325	1 811 875	227 326	1 583 949
Arkansas.....	5 061 654	1 465 060	3 596 594	2 122 905	1 160 554	962 351	5 789	1 176 819	634	1 175 985
California.....	83 360 138	39 402 318	43 957 822	28 284 998	19 042 747	9 242 251	49 432	25 247 530	13 597 738	11 649 792
Colorado.....	6 493 766	1 969 365	4 524 403	2 709 235	1 219 986	1 439 249	5 638	1 437 575	349 958	1 087 619
Connecticut.....	9 957 439	2 090 932	7 866 507	2 506 350	1 567 068	939 282	11 737	2 434 040	194 928	2 239 112
Delaware.....	2 241 388	390 542	1 850 846	789 489	321 913	467 576	2 505	291 746	796	290 950
Florida.....	24 851 056	6 405 800	18 445 256	8 814 361	6 176 792	2 637 569	29 682	5 333 949	185 515	5 148 434
Georgia.....	12 781 046	3 723 502	9 057 544	5 184 281	3 319 732	1 864 529	19 064	3 313 204	-	3 313 204
Hawaii.....	4 902 626	127 640	4 774 986	1 344 015	-	1 344 015	36 784	587 925	10 513	587 412
Idaho.....	2 315 712	780 742	1 534 970	988 673	605 950	380 714	2 744	352 315	-	352 315
Illinois.....	23 639 382	6 706 663	16 932 699	7 295 009	4 249 610	3 045 399	56 527	6 281 356	354 601	5 926 755
Indiana.....	11 691 370	3 677 893	8 013 477	4 652 761	2 190 681	2 462 080	7 383	2 621 020	300 366	2 320 654
Iowa.....	6 711 337	2 160 539	4 550 798	2 649 186	1 543 803	1 105 383	5 425	1 305 649	40 521	1 265 128
Kansas.....	5 051 751	1 440 836	3 610 915	2 197 864	1 103 697	1 094 167	4 190	890 373	15 123	875 250
Kentucky.....	9 235 218	2 392 289	6 842 929	3 572 415	2 018 298	1 554 117	11 967	2 382 835	7 085	2 375 750
Louisiana.....	10 682 706	2 634 974	8 047 732	3 687 009	2 175 623	1 511 386	3 521	2 544 821	49 736	2 495 085
Maine.....	3 231 655	711 798	2 519 857	1 010 112	586 415	421 697	3 073	1 003 035	24 088	978 948
Maryland.....	11 011 767	2 558 591	8 453 176	3 448 754	1 743 746	1 705 008	27 089	2 677 218	102	2 677 116
Massachusetts.....	17 811 534	4 047 945	13 763 589	3 271 297	1 739 212	1 532 085	23 182	5 302 997	308 523	4 994 474
Michigan.....	21 839 665	8 970 998	14 868 667	7 415 632	3 855 645	3 559 987	28 290	5 574 552	299 581	5 274 991
Minnesota.....	12 321 541	4 733 385	7 588 156	4 558 322	2 739 762	1 818 561	6 604	3 022 239	531 511	2 490 728
Mississippi.....	5 216 687	1 765 089	3 451 598	1 993 166	1 244 086	749 078	5 495	1 210 496	83 103	1 127 393
Missouri.....	9 513 043	2 773 013	6 740 030	3 529 312	2 293 534	1 235 778	4 058	2 516 484	15 511	2 500 973
Montana.....	2 107 991	610 277	1 497 714	770 502	457 707	312 795	2 506	333 633	4 915	328 718
Nebraska.....	3 535 292	1 047 544	2 487 748	1 258 940	622 890	636 050	3 648	706 022	7 147	698 875
Nevada.....	2 952 987	1 107 607	1 845 380	1 113 095	702 836	410 459	13 457	449 175	7 977	441 198
New Hampshire.....	2 452 808	293 668	2 159 140	467 794	149 802	317 992	2 531	927 206	54 238	882 970
New Jersey.....	24 109 399	7 859 234	16 250 165	7 017 892	4 549 082	2 468 810	19 457	6 048 477	1 269 653	4 778 824
New Mexico.....	4 593 580	1 819 075	2 774 505	1 919 305	1 156 037	763 268	2 999	710 830	-	710 830
New York.....	60 869 111	24 711 442	36 157 669	17 972 006	12 893 270	5 078 736	93 067	20 307 423	7 517 628	12 789 795
North Carolina.....	14 671 144	5 523 219	9 147 925	6 312 907	4 026 979	2 285 928	17 064	2 948 994	363 591	2 585 403
North Dakota.....	1 833 674	402 727	1 430 947	685 148	271 626	413 522	1 850	338 256	355	337 301
Ohio.....	24 106 118	7 999 399	16 106 719	8 489 030	4 633 832	3 855 198	12 824	6 493 661	925 071	5 568 590
Oklahoma.....	7 062 982	2 166 336	4 896 646	3 026 061	1 781 073	1 244 988	6 522	1 539 537	55 053	1 484 484
Oregon.....	6 841 896	1 813 334	5 028 562	1 935 358	982 966	952 392	3 595	1 326 612	-	1 326 612
Pennsylvania.....	30 336 335	8 816 122	21 520 213	9 973 242	5 041 164	4 932 078	32 079	9 599 604	1 392 088	8 207 516
Rhode Island.....	3 331 245	500 667	2 830 578	813 449	421 079	392 370	5 448	771 274	47 477	723 797
South Carolina.....	7 968 594	2 031 830	5 936 764	3 070 613	1 587 925	1 482 688	7 516	1 617 605	9 779	1 608 026
South Dakota.....	1 489 533	280 445	1 209 088	430 517	210 382	220 135	3 025	290 455	628	289 827
Tennessee.....	9 632 969	2 288 949	7 344 020	3 100 593	1 312 052	1 788 541	11 119	2 816 658	271 361	2 545 297
Texas.....	30 743 796	9 365 415	21 378 381	13 283 188	8 173 962	5 109 226	17 871	7 410 273	219 593	7 190 680
Utah.....	4 057 498	1 140 214	2 917 284	1 950 521	996 214	964 307	5 000	867 567	3 258	864 299
Vermont.....	1 690 440	303 258	1 387 182	562 724	236 073	326 651	2 127	380 804	11 067	369 717
Virginia.....	12 694 076	3 489 912	9 204 164	4 930 787	2 466 610	2 464 157	19 493	2 094 146	271 647	1 822 499
Washington.....	14 724 379	4 578 587	10 145 792	6 224 137	3 642 696	2 581 447	8 620	2 809 043	47 253	2 761 790
West Virginia.....	4 395 674	1 149 496	3 246 178	1 753 193	1 085 976	667 217	1 169	1 094 058	-	1 094 058
Wisconsin.....	12 258 080	4 845 330	7 412 750	4 191 273	2 235 146	1 956 125	10 479	2 809 436	325 222	2 484 214
Wyoming.....	1 725 394	650 384	1 075 010	595 016	400 659	194 357	1 434	191 468	2 785	188 683

See footnotes at end of table.

Table 11. State Government General Expenditure by Function and State: 1992—Con.

(Thousand dollars. For meaning of abbreviations and symbols, see introductory text. Detail may not add to total because of rounding. See appendix B for explanatory notes.)

State	Social services and income maintenance—Con.						Transportation		
	Hospitals ¹	Health	Employment security administration	Veterans' services			Highways ¹		
				Total	Veterans' bonuses	Other	Total	Intergov- ernmental	Direct
	11	12	13	14	15	16	17	18	19
United States.....	26 125 186	21 998 367	3 702 371	170 014	1 932	166 081	46 748 992	8 480 871	40 268 121
Alabama.....	780 815	394 119	63 001	5 874	-	5 874	694 874	148 290	546 584
Alaska.....	34 411	170 885	27 800	400	-	400	547 162	33 245	513 917
Arizona.....	70 853	360 340	39 638	1 228	-	1 228	954 360	322 964	631 396
Arkansas.....	180 485	179 361	35 818	2 380	-	2 380	578 835	121 983	456 852
California.....	2 609 358	2 649 728	413 145	21 087	-	21 087	4 374 948	1 187 671	3 187 277
Colorado.....	166 544	206 028	54 358	-	-	-	852 462	188 869	463 593
Connecticut.....	755 195	303 026	78 031	-	-	-	822 768	30 331	792 437
Delaware.....	43 470	120 462	8 528	162	-	162	233 778	4 766	229 012
Florida.....	507 514	1 418 490	46 874	5 793	-	5 793	2 175 460	165 716	2 009 744
Georgia.....	531 183	494 102	100 635	4 331	-	4 331	875 483	11 774	863 709
Hawaii.....	183 888	226 619	11 884	8 527	-	8 527	359 249	-	359 249
Idaho.....	32 677	61 743	13 620	375	-	375	290 629	74 892	215 737
Illinois.....	668 792	935 684	212 024	7 992	19	7 973	2 461 626	438 822	2 022 803
Indiana.....	519 914	333 319	86 357	449	-	449	1 078 475	341 751	736 724
Iowa.....	473 312	116 473	46 741	-	-	-	949 347	266 126	683 221
Kansas.....	290 204	148 918	20 482	1 519	-	1 519	649 159	113 182	535 977
Kentucky.....	290 831	203 178	42 238	1 374	-	1 374	933 960	90 727	843 233
Louisiana.....	729 533	342 706	63 955	5 646	-	5 646	879 977	41 548	838 429
Maine.....	63 164	104 129	26 373	1 054	-	1 054	272 869	19 754	252 115
Maryland.....	336 625	571 483	30 555	2 440	-	2 440	9 1 632	281 024	690 608
Massachusetts.....	781 637	792 392	98 769	3 662	19	3 643	1 420 838	102 112	918 724
Michigan.....	1 104 211	1 343 071	183 048	609	-	609	1 482 396	727 331	755 065
Minnesota.....	542 849	392 584	82 643	2 223	-	2 223	1 043 000	323 519	719 481
Mississippi.....	241 778	153 978	41 358	3 371	-	3 371	538 749	80 802	458 147
Missouri.....	388 183	333 156	71 451	1 699	-	1 699	958 218	170 305	787 913
Montana.....	38 447	84 838	8 841	562	-	562	283 277	14 021	269 256
Nebraska.....	235 982	143 469	23 123	1 317	-	1 317	442 543	109 535	333 008
Nevada.....	50 256	55 698	25 346	676	-	676	295 087	40 786	254 301
New Hampshire.....	37 370	101 077	19 201	189	-	189	192 968	21 294	171 674
New Jersey.....	921 095	474 848	93 981	3 360	-	3 360	1 835 212	168	1 835 044
New Mexico.....	233 171	181 599	45 679	1 097	-	1 097	383 802	14 978	368 826
New York.....	3 377 503	1 978 690	363 645	7 871	-	7 871	2 478 453	83 069	2 395 384
North Carolina.....	640 018	513 656	66 693	2 563	-	2 563	1 448 093	138 085	1 310 008
North Dakota.....	55 509	39 384	7 029	353	-	353	228 278	42 273	186 005
Ohio.....	1 142 110	738 828	166 990	609	-	609	2 286 803	761 250	1 525 553
Oklahoma.....	333 028	262 327	45 358	-	-	-	815 665	174 540	641 145
Oregon.....	382 378	290 155	43 918	31 353	-	31 353	672 363	289 115	383 248
Pennsylvania.....	1 406 827	993 153	156 024	1 893	1 893	-	2 191 425	311 140	1 880 285
Rhode Island.....	104 803	146 268	28 238	1	1	-	181 412	-	181 412
South Carolina.....	564 637	402 620	54 757	830	-	830	530 144	1 260	528 884
South Dakota.....	42 331	45 020	14 174	705	-	705	210 619	15 192	195 427
Tennessee.....	417 108	318 768	89 206	1 861	-	1 861	1 134 464	250 789	883 675
Texas.....	1 581 840	894 568	238 138	9 758	-	9 758	2 472 785	8 286	2 464 499
Utah.....	232 405	10 084	33 748	78	-	78	324 258	49 509	274 749
Vermont.....	22 337	225	9 385	81	-	81	176 313	21 505	154 808
Virginia.....	959 503	464 732	78 057	9 960	-	9 960	1 521 447	154 384	1 367 063
Washington.....	499 173	763 019	106 624	3 430	-	3 430	1 154 322	288 632	865 690
West Virginia.....	89 277	107 815	24 510	867	-	867	510 002	-	510 002
Wisconsin.....	392 025	439 166	68 484	8 005	-	8 005	853 627	365 310	488 317
Wyoming.....	38 549	52 490	11 756	-	-	-	325 758	38 467	287 291

See footnotes at end of table.

Table 11. State Government General Expenditure by Function and State: 1992—Con.

(Thousand dollars. For meaning of abbreviations and symbols, see introductory text. Detail may not add to total because of rounding. See appendix B for explanatory notes.)

State	Transportation—Con.			Public safety					Protective inspection and regulation, n.e.c.
	Air transportation (airports)	Water transport and terminals	Transit subsidies	Police protection	Correction ¹				
					Total	Intergovernmental	Direct		
	20	21	22	23	24	25	26	27	
United States.....	1 386 913	533 053	3 782 699	5 488 853	20 119 778	1 688 593	18 431 186	4 173 236	
Alabama.....	1 259	43 961	-	77 789	182 698	4 103	178 595	28 507	
Alaska.....	95 401	3 907	-	52 292	155 804	4 900	130 904	31 214	
Arizona.....	18 179	-	-	111 084	343 958	29 481	314 497	55 686	
Arkansas.....	2 267	-	-	38 512	105 591	2 422	103 169	35 855	
California.....	7 472	-	374 993	894 794	3 228 256	325 954	2 900 302	925 459	
Colorado.....	-	-	-	47 853	265 445	3 787	261 678	46 621	
Connecticut.....	25 571	986	60 222	79 816	420 815	-	420 915	46 323	
Delaware.....	-	-	15 811	37 735	109 140	-	109 140	21 605	
Florida.....	34 296	4 078	68 380	224 694	1 036 611	-	1 036 611	213 850	
Georgia.....	3 782	52 106	8 017	101 448	601 073	21 739	579 334	50 236	
Hawaii.....	442 818	39 624	-	8 503	104 655	-	104 655	21 184	
Idaho.....	1 068	-	-	28 782	57 671	4 907	52 764	29 603	
Illinois.....	120 570	-	221 472	232 584	825 412	32 530	592 882	147 301	
Indiana.....	1 899	5 036	20 272	90 726	321 025	19 750	301 275	31 740	
Iowa.....	2 821	-	8 806	44 335	166 751	31 731	135 020	25 508	
Kansas.....	-	-	-	34 108	189 460	10 357	179 103	31 569	
Kentucky.....	46 239	-	-	105 438	209 874	28 800	181 074	62 283	
Louisiana.....	2 746	91 629	-	119 440	275 992	41 546	234 446	22 869	
Maine.....	1 307	3 540	-	25 893	87 339	-	87 339	24 398	
Maryland.....	52 086	46 885	78 520	179 805	555 635	10 050	545 585	56 271	
Massachusetts.....	148 484	65 505	613 782	131 252	845 378	151 362	494 016	42 297	
Michigan.....	121 034	4 822	132 510	200 145	854 828	7 820	847 008	107 562	
Minnesota.....	32 485	-	35 592	94 852	193 832	30 626	163 206	97 943	
Mississippi.....	91	4 111	-	36 894	87 310	2 161	85 149	45 817	
Missouri.....	555	558	5 390	97 446	201 873	821	201 052	44 139	
Montana.....	1 218	-	963	23 040	37 479	-	37 479	31 696	
Nebraska.....	19 937	-	2 509	35 646	73 336	-	73 336	25 980	
Nevada.....	-	-	-	28 513	127 967	1 167	126 800	37 230	
New Hampshire.....	3 715	327	-	24 196	45 696	270	45 426	18 651	
New Jersey.....	-	13 071	-	233 751	659 074	68 475	590 599	222 240	
New Mexico.....	-	-	-	51 487	128 427	937	127 490	34 924	
New York.....	33 706	22 835	1 373 778	300 169	2 006 174	272 285	1 735 889	337 866	
North Carolina.....	16 461	21 924	-	146 812	551 411	11 028	540 383	48 108	
North Dakota.....	193	-	-	8 018	16 118	37	16 081	14 179	
Ohio.....	2 413	1 094	36 753	154 244	691 342	42 455	648 887	123 953	
Oklahoma.....	1 450	-	-	44 241	200 789	5 077	195 712	46 339	
Oregon.....	-	-	5 861	71 087	209 026	33 960	175 066	79 912	
Pennsylvania.....	20 261	18 240	394 766	306 727	588 169	35 707	552 462	110 411	
Rhode Island.....	17 930	2 224	25 154	23 513	101 022	-	101 022	20 508	
South Carolina.....	4 276	54 931	-	81 591	297 225	-	297 225	37 861	
South Dakota.....	10 075	-	-	13 524	29 928	35	29 893	8 500	
Tennessee.....	15	-	19 548	65 338	380 028	62 730	317 298	46 099	
Texas.....	-	1 928	5 763	215 192	1 336 280	173 668	1 162 612	205 281	
Utah.....	21 257	-	-	32 866	96 951	-	96 951	18 270	
Vermont.....	110	-	1 541	27 325	33 664	20	33 644	14 009	
Virginia.....	14 952	29 590	84 635	258 671	579 591	166 322	413 269	97 742	
Washington.....	1 584	-	132 096	152 133	544 770	-	544 770	241 541	
West Virginia.....	857	-	-	23 850	36 491	-	36 491	20 321	
Wisconsin.....	45 307	141	55 482	53 072	338 479	49 610	288 866	59 858	
Wyoming.....	8 966	-	-	13 827	23 914	3	23 911	7 797	

See footnotes at end of table.

Table 11. State Government General Expenditure by Function and State: 1992—Con.

(Thousand dollars. For meaning of abbreviations and symbols, see introductory text. Detail may not add to total because of rounding. See appendix B for explanatory notes)

State	Environment and housing								
	Natural resources					Parks and recreation	Housing and community development	Sewerage	Solid waste management
	Total	Agriculture	Fish and game	Forestry	Other				
	28	29	30	31	32	33	34	35	36
United States	10 520 684	4 222 547	1 713 835	1 094 596	3 489 688	3 018 170	2 667 573	1 813 656	1 480 671
Alabama	151 432	90 732	14 256	24 817	21 627	9 728	3 658	-	-
Alaska	236 426	14 631	115 206	26 914	77 675	16 829	34 694	51 797	-
Arizona	148 651	97 136	27 877	1 497	22 141	22 436	3 417	-	2 744
Arkansas	117 150	69 347	23 970	12 576	11 257	32 198	2 415	2 585	-
California	1 519 328	584 593	164 962	339 600	430 173	224 461	184 774	98 541	396 214
Colorado	158 367	38 002	46 154	5 119	69 092	22 343	41 808	-	5 466
Connecticut	82 148	17 510	12 232	8 280	24 126	42 899	108 671	6 381	135 608
Delaware	28 185	3 875	3 588	841	19 881	19 959	29 667	-	42 806
Florida	840 390	301 523	60 813	38 338	439 618	97 489	72 100	73 090	49 533
Georgia	244 118	140 988	29 458	7 981	38 711	245 869	75 658	-	8 547
Hawaii	121 579	55 803	4 152	6 533	55 091	101 893	88 648	4 043	2
Idaho	100 784	38 194	33 938	15 852	14 782	15 750	4 216	13 625	560
Illinois	261 464	133 988	24 116	7 224	96 136	179 544	58 018	177 512	25 943
Indiana	135 944	74 433	26 075	7 078	28 358	26 102	43 658	20 164	7 908
Iowa	180 537	100 485	13 557	3 207	63 388	17 808	26 639	190	2 494
Kansas	125 394	87 570	17 108	-	20 716	7 999	15 656	-	-
Kentucky	236 480	110 474	19 590	8 924	97 492	105 653	28 490	-	8 366
Louisiana	237 919	109 140	31 641	9 777	87 361	91 592	27 166	-	10 122
Maine	79 694	34 478	24 395	8 477	12 346	12 193	24 990	9 896	19 305
Maryland	266 984	77 970	43 995	15 593	129 428	45 684	71 862	44 495	12 598
Massachusetts	123 079	15 240	20 973	3 404	83 462	72 214	338 301	460 508	12 842
Michigan	236 690	109 664	29 884	14	99 148	94 194	62 697	2 502	25 395
Minnesota	282 290	107 330	59 878	30 972	84 110	71 107	35 920	10 488	9 270
Mississippi	125 371	73 499	18 926	22 409	10 537	23 769	32 881	-	4
Missouri	213 410	80 821	29 458	17 368	85 783	32 012	62 353	83 078	4 095
Montana	94 666	26 438	30 344	15 933	21 951	4 720	14 698	-	-
Nebraska	107 954	79 552	15 976	-	12 426	18 239	2 037	-	-
Nevada	52 735	14 803	15 441	6 558	15 933	16 464	8 889	-	5 318
New Hampshire	32 175	5 037	10 002	1 685	15 451	15 014	13 233	25 156	6 594
New Jersey	224 652	62 197	32 052	6 648	123 955	234 075	158 069	10 216	98 698
New Mexico	79 409	41 451	19 147	2 878	15 933	29 042	3 329	17 546	-
New York	332 518	84 689	37 161	73 523	137 245	290 087	308 539	129 288	97 212
North Carolina	279 626	162 727	35 616	30 958	50 325	43 783	71 272	5 300	19 486
North Dakota	71 042	48 088	10 425	-	12 529	9 556	19 058	-	-
Ohio	241 823	114 357	24 997	8 963	93 506	57 032	91 294	119 604	23 149
Oklahoma	105 607	69 242	19 629	2 198	14 738	49 229	17 167	-	883
Oregon	216 263	73 114	83 829	59 902	19 418	21 252	37 916	254	6 687
Pennsylvania	383 354	105 091	72 794	32 442	153 027	107 863	117 547	30 978	50 116
Rhode Island	23 285	4 924	4 199	1 677	12 485	78 287	19 494	51 748	26 529
South Carolina	133 692	55 694	41 987	22 844	13 167	35 735	18 952	-	5 079
South Dakota	66 853	32 916	15 541	3 660	14 738	12 160	13 010	-	-
Tennessee	154 836	88 455	38 447	17 705	10 229	51 432	45 012	27 626	7 926
Texas	418 612	207 747	70 625	15 653	122 587	64 225	5 978	-	177 732
Utah	92 095	35 194	24 177	4 621	28 103	22 868	26 140	-	3 936
Vermont	55 682	16 220	9 287	3 359	26 616	8 745	29 550	113	12 835
Virginia	163 418	80 136	32 100	18 640	32 542	44 748	63 362	58 973	7 942
Washington	560 473	103 612	105 224	78 635	273 002	74 475	37 425	-	85 074
West Virginia	103 038	33 384	15 300	3 687	50 467	38 477	21 766	2 042	9 185
Wisconsin	238 610	93 370	39 083	26 330	77 827	39 258	18 860	76 809	28 440
Wyoming	73 852	18 585	34 072	1 922	19 273	18 709	10 621	-	27 828

See footnotes at end of table.

Table 11. State Government General Expenditure by Function and State: 1992—Con.

(Thousand dollars. For meaning of abbreviations and symbols, see introductory text. Detail may not add to total because of rounding. See appendix B for explanatory notes.)

State	Governmental administration					Interest on general debt	General expenditure, n.e.c.		
	Financial administration	Judicial and legal	Legislative	General public buildings	Other governmental administration		General local government support	Miscellaneous commercial activities	Other and unallocable
	37	38	39	40	41		43	44	45
United States	9 750 993	7 500 520	1 553 188	1 369 278	966 151	24 821 601	18 368 139	200 425	25 448 198
Alabama	111 858	129 789	14 556	7 085	10 800	280 179	101 752	-	262 477
Alaska	109 502	96 185	24 307	30 227	13 745	649 430	73 266	56 135	779 409
Arizona	181 538	72 457	17 897	13 187	17 414	186 950	607 224	-	248 514
Arkansas	76 617	29 665	14 448	3 201	5 364	130 387	46 427	-	138 680
California	1 533 237	944 254	167 509	22 922	57 442	2 457 151	2 367 811	-	4 287 594
Colorado	130 703	109 845	13 173	6 972	21 099	225 113	25 969	-	141 151
Connecticut	185 577	180 547	28 498	27 278	19 937	724 969	127 669	1 184	760 393
Delaware	59 071	47 242	6 380	20 705	6 154	227 957	-	-	78 831
Florida	430 546	449 719	83 424	60 755	40 960	740 022	1 409 682	-	591 291
Georgia	114 917	49 595	18 213	32 819	21 150	280 715	-	-	350 539
Hawaii	78 360	106 803	20 731	55 349	17 679	278 544	77 390	-	566 130
Idaho	38 338	25 488	5 378	4 838	3 694	98 592	67 264	4 385	74 319
Illinois	412 731	190 885	53 254	43 461	17 860	1 260 329	762 891	-	951 123
Indiana	180 005	50 112	18 571	78 649	11 791	354 703	659 666	-	333 719
Iowa	83 524	107 024	15 737	3 946	10 820	132 253	147 354	5 672	181 863
Kansas	97 030	81 693	12 719	3 545	17 610	40 906	86 485	-	102 866
Kentucky	162 778	143 514	23 747	408	13 510	434 180	-	-	215 846
Louisiana	114 135	85 859	24 542	16 678	52 226	733 312	150 566	-	368 747
Maine	53 456	36 545	12 009	10 791	9 322	185 569	35 366	-	117 069
Maryland	220 158	206 409	23 722	30 708	25 156	471 998	109 737	2 366	454 910
Massachusetts	406 780	329 709	41 845	30 064	16 703	1 420 544	822 569	-	794 826
Michigan	306 265	163 039	64 641	22 663	67 071	637 660	340 745	-	610 973
Minnesota	180 577	109 126	41 508	11 420	30 129	294 517	663 633	-	456 075
Mississippi	41 567	22 269	12 246	41 982	12 512	115 741	279 100	-	146 835
Missouri	134 636	121 523	21 094	25 621	7 946	394 592	8 073	-	251 884
Montana	66 372	30 470	7 057	1 920	4 854	113 806	45 679	1 123	105 626
Nebraska	43 475	27 338	10 471	3 219	7 228	127 914	145 725	-	59 140
Nevada	87 975	21 134	6 534	162	7 465	115 597	335 751	-	100 473
New Hampshire	36 556	62 448	7 744	5 517	4 649	297 459	31 517	-	63 812
New Jersey	278 788	296 045	51 302	45 277	55 374	1 385 961	963 929	-	2 764 355
New Mexico	67 601	77 476	10 194	24 497	8 953	103 474	396 631	-	80 106
New York	849 205	1 225 845	176 640	136 393	93 830	3 246 942	889 567	-	2 437 739
North Carolina	138 372	234 127	17 133	35 687	26 383	273 409	466 987	321	320 454
North Dakota	21 705	17 377	3 197	2 575	4 592	74 478	50 774	92 369	72 636
Ohio	503 461	128 854	33 126	105 705	25 437	654 526	1 045 997	2 234	533 222
Oklahoma	146 949	84 357	21 274	15 254	7 925	170 574	19 407	3 011	97 506
Oregon	225 465	133 440	14 713	27 601	9 187	804 793	96 786	-	175 181
Pennsylvania	400 250	260 597	132 884	38 372	36 527	1 074 788	150 097	-	1 778 143
Rhode Island	41 626	65 649	12 258	14 644	15 249	306 261	20 805	2 540	410 448
South Carolina	121 505	43 277	22 223	22 152	7 265	241 042	266 822	-	327 244
South Dakota	23 658	16 437	4 653	16 307	6 362	139 731	24 543	28 083	40 863
Tennessee	97 380	87 187	14 905	29 387	14 800	202 680	235 746	-	283 246
Texas	337 310	239 538	65 130	63 592	27 166	615 624	50 417	-	1 007 607
Utah	71 752	56 441	9 525	28 816	5 340	150 072	-	-	97 509
Vermont	29 953	28 014	4 692	29 606	4 651	113 052	10 316	-	30 604
Virginia	279 584	197 301	23 400	35 066	8 892	478 499	26 093	-	163 490
Washington	181 985	52 439	47 154	59 661	33 902	434 223	31 689	-	425 417
West Virginia	94 808	39 847	12 651	13 858	9 564	172 204	13 279	-	194 415
Wisconsin	123 605	127 226	40 790	2 499	5 542	496 978	1 214 344	-	518 285
Wyoming	34 150	24 156	3 179	5 991	4 918	70 889	138 317	-	42 807

¹See table 12 for additional detail.

ATTACHMENT B

**"Table 6.15, State General Expenditure, by Function and by State: 1991",
*Book of the States, Council of State Governments***

Table 6.15

STATE GENERAL EXPENDITURE, BY FUNCTION AND BY STATE: 1991
(In thousands of dollars)

State	Total general expenditure (a)	Education	Public welfare	Highways	Hospitals	Natural resources	Health	Corrections	Financial administration	Employment security administration	Police
United States.....	\$554,900,684	\$196,648,164	\$124,435,584	\$47,037,783	\$24,465,507	\$10,256,134	\$21,411,822	\$19,239,732	\$9,100,736	\$3,238,133	\$5,506,147
Alabama.....	8,050,247	3,508,818	1,356,970	679,371	705,923	152,596	342,850	176,812	104,603	55,583	76,851
Alaska.....	4,493,231	1,098,362	434,961	501,887	31,609	242,492	142,270	129,827	93,540	23,554	43,067
Arizona.....	7,287,499	2,807,281	1,034,440	1,094,076	75,230	126,784	282,181	347,329	165,781	27,269	114,981
Arkansas.....	4,315,084	1,840,883	953,593	459,403	165,407	103,721	125,557	99,568	70,708	32,910	37,021
California.....	75,033,397	27,217,855	18,990,798	3,888,891	2,377,993	1,659,523	3,427,654	2,982,713	1,453,660	304,384	832,254
Colorado.....	6,089,428	2,653,866	1,131,940	670,712	187,080	127,386	197,509	256,967	136,465	47,140	40,136
Connecticut.....	9,806,921	2,334,659	2,068,735	1,019,058	687,910	73,402	341,777	459,799	155,298	70,114	99,256
Delaware.....	2,151,640	758,217	256,892	257,350	43,596	28,960	103,227	82,709	33,897	7,985	36,500
Florida.....	23,628,437	9,096,937	4,556,120	1,778,350	491,749	690,528	1,457,379	924,210	403,197	35,797	251,709
Georgia.....	12,280,305	5,199,458	2,672,806	1,019,880	329,250	256,184	484,224	628,057	113,364	83,873	110,779
Hawaii.....	4,174,449	1,268,963	478,011	276,620	171,610	109,483	198,137	91,877	77,883	18,112	8,086
Idaho.....	2,055,374	862,416	285,200	278,597	30,442	88,312	56,787	32,688	36,418	15,707	25,025
Illinois.....	22,167,969	7,206,280	4,860,235	2,375,834	652,516	278,112	877,710	661,982	393,427	194,882	234,794
Indiana.....	11,153,394	4,591,219	2,271,725	1,044,286	461,749	138,129	301,396	395,942	173,069	66,246	89,725
Iowa.....	6,383,519	2,581,131	1,171,292	866,714	457,525	164,599	118,513	150,815	99,903	44,058	46,324
Kansas.....	4,698,577	1,945,407	816,831	633,246	285,331	149,598	137,029	208,646	90,152	17,646	30,147
Kentucky.....	8,247,566	3,309,670	1,936,684	826,158	277,843	210,807	195,324	32,688	144,019	45,156	105,093
Louisiana.....	9,592,363	3,484,812	1,831,817	842,546	697,136	235,753	300,405	258,672	81,568	56,533	114,214
Maine.....	3,095,441	960,894	877,679	286,969	73,553	75,568	104,482	68,009	50,498	23,009	29,951
Maryland.....	10,776,479	3,333,612	2,107,771	1,187,070	351,043	228,142	544,860	506,282	222,087	26,985	272,558
Massachusetts.....	18,265,374	3,299,520	5,784,674	699,095	841,011	146,345	762,023	708,076	360,633	108,139	121,387
Michigan.....	20,748,884	6,948,119	3,125,229	1,436,775	1,092,771	254,145	1,284,400	815,372	207,374	152,467	191,369
Minnesota.....	11,688,084	4,501,100	2,375,445	1,011,745	536,654	273,637	356,518	167,194	190,309	82,190	38,390
Mississippi.....	4,680,274	1,902,486	968,399	496,226	228,720	127,640	146,126	91,211	46,689	34,843	32,496
Missouri.....	8,478,125	3,454,018	1,771,716	902,654	409,013	195,700	306,142	197,081	134,118	61,821	97,133
Montana.....	2,058,039	752,310	331,119	272,279	40,536	116,574	74,086	45,601	53,400	10,391	21,146
Nebraska.....	3,191,303	1,161,219	594,398	434,941	213,008	107,960	112,979	66,098	39,167	21,894	33,610
Nevada.....	2,556,672	997,787	362,459	242,575	48,677	49,612	56,461	125,696	69,082	21,339	23,751
New Hampshire.....	1,748,813	404,343	398,299	175,348	43,854	28,822	98,808	43,257	28,919	16,989	24,179
New Jersey.....	19,398,772	5,830,322	4,185,677	1,372,131	813,156	169,743	500,009	633,398	301,179	70,904	239,138
New Mexico.....	4,203,656	1,777,914	537,590	364,475	209,973	31,073	161,635	123,341	65,427	45,517	47,139
New York.....	53,916,492	14,580,528	17,015,247	2,569,144	3,431,920	352,635	1,920,611	2,203,720	845,155	337,336	319,577
North Carolina.....	13,805,168	6,258,105	3,161,902	1,389,936	613,921	286,206	471,143	526,724	137,648	51,342	142,297
North Dakota.....	1,653,192	622,566	255,754	196,408	63,502	74,635	29,671	15,181	18,744	4,702	6,908
Ohio.....	22,324,368	8,008,509	5,712,108	2,046,757	1,072,703	242,266	678,654	642,984	480,144	147,724	145,355
Oklahoma.....	6,270,902	2,597,006	1,263,277	778,673	316,717	101,195	229,586	201,807	143,656	41,931	41,969
Oregon.....	6,292,079	1,891,945	1,144,097	783,904	333,374	195,083	240,548	237,256	153,990	34,300	63,280
Pennsylvania.....	22,879,014	6,892,290	6,115,065	2,362,726	1,018,528	386,620	328,192	541,069	337,697	140,677	298,807
Rhode Island.....	2,749,576	724,989	651,329	194,402	112,944	28,386	141,678	92,086	43,066	22,337	27,030
South Carolina.....	7,698,481	3,021,894	1,538,128	510,991	487,973	145,065	429,404	314,469	114,342	49,788	53,763

STATE GENERAL EXPENDITURE, BY FUNCTION AND BY STATE: 1991—Continued

State	Total general expenditure (a)	Education	Public welfare	Highways	Hospitals	Natural resources	Health	Corrections	Financial administration	Employment security administration	Police
South Dakota.....	1,356,187	409,004	212,120	209,354	36,235	58,625	55,827	28,258	22,392	13,023	11,903
Tennessee.....	8,596,037	3,074,195	1,977,532	1,060,615	391,388	110,973	312,102	393,752	102,002	61,779	62,139
Texas.....	27,025,896	12,310,342	5,393,405	2,612,497	1,312,703	386,552	802,363	1,064,135	295,281	213,233	206,626
Utah.....	3,692,298	1,304,567	533,666	300,314	212,173	87,602	116,754	91,610	64,257	41,716	30,003
Vermont.....	1,606,774	540,115	345,516	169,872	22,971	60,092	41,453	30,319	34,225	9,192	23,164
Virginia.....	12,389,500	4,868,391	1,814,379	1,696,901	881,507	172,285	430,685	567,343	271,623	70,455	274,623
Washington.....	13,170,331	5,748,501	2,451,817	1,104,748	437,731	487,506	550,856	309,694	191,007	80,217	164,297
West Virginia.....	3,996,068	1,721,050	708,271	500,904	67,688	109,860	100,270	40,470	75,370	22,488	25,095
Wisconsin.....	11,340,393	3,948,375	2,480,359	829,118	364,506	205,552	364,954	307,794	114,535	59,522	42,131
Wyoming.....	1,637,792	535,714	152,107	324,757	15,625	73,466	65,113	23,248	39,265	12,434	16,379

Source: U.S. Department of Commerce, Bureau of the Census, *State Government Finances 1991*.
 Note: Detail may not add to totals due to rounding.

(a) Does not represent state figures because total includes miscellaneous expenditures not shown separately.

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101:91

LONG-RANGE FINANCIAL PLANNING COMMISSION WORKBOOK

**Prepared by the
Office of Management and Budget
May 10, 1995**

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Note: This workbook is intended to supplement, summarize and update information already provided to members of the Long-Range Financial Commission. Due to the timing of the next work session on May 19–20 and the need to get information out to Commission members ahead of time, the budget material presented herein does not contain final FY 96 numbers. These will be updated in a briefing at the upcoming work session.

APPROACHES AND OPTIONS

There are many approaches that the Commission might take to define or structure its task. Not all, obviously, would cover the same ground, or necessarily lead to the same conclusions. Some possibilities and options that the Commission may wish to consider as a means of getting started, however, are outlined below.

Broad Alternatives

Probably the most direct approach to dealing with the fiscal gap is to set about finding an acceptable mix of the fiscal tools available for dealing with the gap (reserves, spending cuts, taxes, economic development, Permanent Fund, etc.), plus an acceptable time frame for implementing the mix.

It might be productive for the Commission to consider a potential distinction between

- potential tasks and deliverables that would be appropriate for the early stages of a public discussion about the fiscal gap; and,
- those that might be appropriate for the latter stages of a public discussion.

It also might be useful to consider other broad frameworks for analysis, such as:

- whether it would be better to follow a "top-down" process of developing fiscal strategies, where the public essentially reviews and comments on ideas formulated by the Commission; or a "bottom-up" process, where the public more actively contributes to the design and development of fiscal strategies;
- whether what is to be "balanced" in a fiscal plan encompasses:
 - "revenues and expenditures", or
 - "revenues, expenditures, and needs".

Key Questions

Key questions that the Commission might wish to consider at the very outset, to help in defining its approach, might include ones like the following:

- Of the more than a dozen tasks explicitly set out in HCR 1, where should the Commission focus its efforts?
- What areas of consensus exist among the Commission's members - - e.g., to potentially serve as a point of departure for the Commission's work, or as a base on which to build?
- Should the Commission orient itself more towards "solving" the fiscal gap problem, or more towards positioning and preparing state government for solving it?
- Might there be a role or roles for successor commissions? If so, how might it affect the nature of the Commission's task?
- What is an appropriate time frame for assessing strategies to close the fiscal gap?

Possible Approaches

Some approaches that the Commission might wish to consider, or explore, could include the following:

- Identify areas of relative consensus vs. areas where there is a relative lack of consensus among Commission members - - e.g., on topics such as:
 - the most important aspects of the Commission's mission;
 - deliverables for the October 1, 1995, deadline that are "must have" items, as opposed to those that would be "nice to have";
 - the conditions under which (or manner in which) particular fiscal tools should or might be used - - e.g., spending cuts, taxes, the Permanent Fund, etc.;
 - the relative priority or sequence of access to the available fiscal tools - - e.g., no taxes before certain levels of spending cuts, use of the Permanent Fund only after all other measures, etc.;
 - criteria or guidelines for deciding how much is "enough" - - e.g., in spending cuts, taxation, use of reserves, etc.;
 - the attributes of a "politically feasible" fiscal strategy, versus the attributes of one that is "politically unfeasible";

- the "first steps" that should be taken - - e.g., by the Governor, or legislators;
- the respective fiscal roles and responsibilities of state government in Alaska versus local governments;
- Identify barriers to action; e.g.:
 - why hasn't the fiscal gap problem been solved to date?
 - what barriers or impediments exist to using the various fiscal tools?
- Identify what is desired as an overall end-product of the Commission's work:
 - a fiscal plan?
 - a strategy for adopting a fiscal plan?
 - a strategy for developing a fiscal plan that will be politically supported?

STRATEGIES FOR DEALING WITH UNCERTAINTY

A fundamental difficulty in trying to deal with the State's projected "fiscal gap" is the fact that it is a moving target. Sometimes it looks larger, sometimes it looks smaller. Sometimes it appears imminent (or already under way), and other times it appears years off. Every time oil prices bounce up or down, the contours of the fiscal gap - the perceived urgency for dealing with it - shift measurably, and often dramatically.

This shifting nature of the problem makes it difficult to frame - - and difficult to develop consensus for answering - - even the most basic questions; namely:

- Just what is our fiscal problem?
- Is it already here or not?
- When is it really coming?
- What should be done about it?
- What (if anything) should be done now?
- Who should do it?
- Who should go first?
- Who gets blamed if we're wrong?

Not being able to answer these questions with any degree of reliability (or consistency) creates an important risk - - namely, that a certain point may get passed, beyond which we no longer have certain fiscal options available to us. Or following which draconian measures will be available, or likely. Such a point, for example, might be "too much" (however defined) of our reserves were to get used up too soon, and prices fell precipitously, etc.

From a different perspective, not being able to reliably or consistently answer these questions also causes political problems. In particular, decision makers become understandably cautious about going out on a limb and declaring a fiscal emergency, or offering a particular solution to it.

Finally, the same problem contributes to an erosion of public confidence in decision makers' ability to correctly interpret a problem and solve it.

In view of this situation, some approaches, questions and suggestions are outlined below that might help the Commission grapple with this centrally important issue.

Key Questions

- How to tell when the "fiscal gap" will (really) arrive?
- When does action have to be taken to deal with it?
- What effect does revenue uncertainty have on strategies for dealing with the fiscal gap?
 - what happens to a strategy if the fiscal gap at a given point is larger (smaller) than we thought?
 - what if it occurs earlier (later) than we thought?
 - how can we develop strategies that will account for these kinds of uncertainties?
- Given that the fiscal gap seems to remain several years away, how can we identify steps that need to be taken now?
- Is it necessary to have precise estimates of the size and timing of the fiscal gap in order to deal with it effectively?
- How to gauge the fiscal effects of change in the structure of Alaska's economy?

Options For Dealing With Uncertainty

- maintain a specified level of liquid or semi-liquid reserves;
- emphasize contingency planning - - adopting measures whose use depends on the course of future events;
- define "trigger" conditions for the use of particular fiscal measures:
 - e.g., enacting legislation that calls for some version of Fiscal Tool "X" to take effect at some point in the future if revenue falls a certain percentage below FY "XX" per capita levels, and for some version of Tool "Y" to take effect if revenue falls a certain percentage further, etc.
- consider some form of contingency budgeting, perhaps for selected or non-"core" budget items or categories:
 - e.g., where the amount appropriated for an agency or program (perhaps beyond a base amount) depends in some fashion on the amount of revenue received;

Options such as these might prove useful because of being tailored more closely to the changing nature (and time table) of our fiscal gap problem. They might also prove useful in helping to alleviate decision makers' anxieties about taking a particular step now, but having it turn out to be either too much, or too little, as events unfold. In short, decision makers might feel comfortable in considering contingency approaches such as these because, if they are needed in the future, they would already be in place; but if not, they would not take effect.

Developing Base Case Assumptions

In order to have a meaningful discussion on fiscal policy, it is necessary to agree on some basic assumptions about inflation, statewide population growth, revenue and expenditure projections. The following sections attempt to lay a plausible foundation for the commission to use in constructing a long-term fiscal policy. Please note that this is only a tentative first step. Commissioners will have ample opportunity to make changes necessary to ensure that these assumptions are realistic.

Inflation and Population

Aside from legislated changes, inflation and population are the two main drivers of public service costs – even without adding any new programs or services these factors steadily add to the cost of government, particularly over the long term. Inflation is also an important factor in forecasting revenues and Permanent Fund earnings, while population growth and demographic characteristics are underlying determinants of formula program costs.¹ For purposes of the Commission, adopting consistent inflation and population conventions is probably more important than the absolute accuracy of projections.

Inflation

- The Department of Labor (DOL) has provided historical information on the Anchorage (CPIU) index.
- During the 1980s, inflation rates in Alaska diverged significantly from national rates, increasing faster during the boom years of the early '80s and then much slower than the national average during the bust years of the late '80s.
- During the '90s, national average inflation and Alaska inflation rates have tracked closely, with the Anchorage CPIU trending slightly higher during the early '90s.
- For 1994 the Anchorage CPIU increased 2.1% while the national average CPI was 2.4%, in line with the Alaska economy slowing relative to the U.S. economy as a whole.
- For future inflation, Department of Revenue (DOR) projections of national inflation rates contained in the *Spring 1995 Revenue Sources Book* have been adopted in Table 1, with inflation during the next 10 years projected at around 3%.

¹Formula programs are defined as those where distribution of funds is predetermined by a formula set in state law. In some cases like municipal assistance and revenue sharing, the legislature sets an overall funding level and the formula distributes funds to municipalities within the overall level. In others such as foundation funding for schools, the legislature determines a per unit amount and the overall level of spending is determined by enrollment.

Population

- The DOL publishes low, middle, high and zero projections of statewide population growth.
- During the 1980's, statewide population growth was very rapid during the boom years, fueled by both natural increase (more births than deaths) and net in-migration.
- During the bust years of the late '80s, the state saw four years of net out-migration, when a total of about 44,000 more people left the state than migrated in. This net out-migration was nearly offset by a 39,000 person natural increase during the same '85-'89 period.
- Migration is determined largely by economic opportunities within the state as well as economic swings in the Northwest and California, which tend to be population "feeder states" for Alaska.
- The '90s have seen a slowing of migration to Alaska, though natural increase has continued at a rate of more than 9,000 per year.
- In the workbook scenarios, the DOL middle series population projection has been used, which shows statewide population increasing from 621,300 in FY 95 at a rate of 2.5% per year and gradually slowing to a rate of 2% in FY 2005 with a total population of 780,200.
- The most expensive cohorts of the population in terms of public service costs – school age children under 18 years of age and seniors over 65 – have been projected separately in Table 1.
- The proportion of the school age population is projected to decrease slightly from 31% in FY 95 (Alaska is a young state) to 29% in FY 2005, while the proportion of seniors is expected to increase from 4 to 6% during the same period.

Table 1

Basic Inflation and Demographic Assumptions						
	*Anchorage	Percent	**Statewide	Percent	Percentage	Percentage
Fiscal	CPI	Change	Population	Change	Statewide	Statewide
Yr.	FY Avg.		Total		Population	Population
					<18 Yrs	>65 Yrs.
60			230,400			
61	34.4		236,700	2.7%	39.3%	2.4%
62	34.7	0.9%	242,800	2.6%		
63	34.8	0.1%	249,900	2.9%		
64	34.9	0.3%	253,200	1.3%		
65	35.3	1.1%	265,200	4.7%	39.7%	2.3%
66	35.6	1.0%	271,500	2.4%		
67	36.8	3.4%	277,900	2.4%		
68	37.7	2.3%	284,900	2.5%		
69	38.9	3.4%	294,600	3.4%		
70	40.2	3.2%	308,500	4.7%	40.0%	2.3%
71	41.6	3.6%	319,600	3.6%		
72	42.8	2.9%	329,800	3.2%		
73	43.9	2.5%	336,400	2.0%		
74	46.8	6.7%	348,100	3.5%		
75	53.1	13.5%	384,100	10.3%	35.6%	2.6%
76	59.2	11.4%	409,600	6.7%		
77	63.2	6.8%	418,000	2.0%		
78	67.3	6.6%	411,600	-1.5%		
79	73.6	9.3%	413,700	0.5%		
80	81.3	10.5%	419,800	1.5%	32.5%	2.9%
81	88.8	9.1%	434,300	3.5%		
82	95.4	7.4%	464,300	6.9%		
83	97.8	2.5%	499,100	7.5%		
84	101.0	3.3%	524,000	5.0%		
85	104.3	3.3%	543,900	3.8%	31.4%	3.1%
86	107.6	3.2%	550,700	1.3%		
87	107.9	0.2%	541,300	-1.7%		
88	108.3	0.4%	535,000	-1.2%		
89	109.9	1.5%	538,900	0.7%		
90	114.7	4.4%	553,600	2.7%	31.3%	4.1%
91	121.9	6.2%	570,300	3.0%		
92	126.0	3.4%	586,900	2.9%		
93	130.3	3.4%	599,200	2.1%		
94	133.6	2.5%	606,300	1.2%		
95	137.4	2.9%	621,300	2.5%	30.7%	4.8%
96	141.5	3.0%	636,600	2.5%		
97	146.0	3.2%	652,000	2.4%		
98	150.7	3.2%	667,900	2.4%		
99	155.5	3.2%	684,000	2.4%		
2000	160.4	3.2%	700,500	2.4%	29.9%	5.7%
1	165.5	3.2%	716,800	2.3%		
2	170.8	3.2%	733,000	2.3%		
3	176.2	3.2%	748,900	2.2%		
4	181.8	3.2%	764,700	2.1%		
5	187.6	3.2%	780,200	2.0%	29.1%	5.9%

*Inflation: FY 61 - 94 provided by DOL; FY 94 and beyond estimated by DOR - Spring 1995 Revenue Sources Book.						
**Population: Historical data provided by DOL; projections are middle series.						

Revenues and Expenditures

Realistic revenue and expenditure projections are crucial to the work of the Commission. However, great uncertainty is associated with projections of either. In this respect, it is probably more important to reach a comfort level with the relationship between revenues and expenditures than to focus on balancing the numbers themselves, i.e., to approach the problem from a strategic perspective rather than as an accounting exercise. The purpose of the following sections is to suggest a plausible base case from which to start. These notes explain Tables 2 and 3.

Revenues

- The basic source of production, price and revenue projections is the spring revenue forecast contained in the DOR *Revenue Sources Book*. The mid-case projection could be used as the convention for Commission purposes.
- Because petroleum revenues account for the vast majority of state general fund unrestricted revenues (78% in FY 94), the main variables in determining revenues are the price of oil and production volume.
- In FY 78 when oil first began flowing through TAPS, the price for ANS crude was \$13.12 /bbl.. Since then prices have been extremely volatile due to a host of market and political factors varying from \$34.92/bbl. in FY 81 to \$14.22 in FY 94.
- Prices are projected to increase from \$16.84 per barrel in FY 95 (as of April) to \$22.39 in FY 2005.
- Alaska production peaked in FY 89 at 2.1 million barrels per day and has since declined at an average rate of about 4% per year to 1.574 million in FY 95. Future production is projected to continue to decline to 1.103 million barrels per day in FY 2005.
- Experience has shown that the Department of Natural Resources (DNR) and DOR have consistently underestimated future production and reserves for a variety of reasons.² Thus later forecasts have tended to revise revenue projections upward – a primary cause of the "mirage" or moving target aspect to the fiscal gap problem. (The production forecast is discussed in some detail in Appendix II.)
- Unrestricted general fund revenues are projected to range from \$1.885 billion in FY 95 to \$1.948 billion in 2005.

²The state's production projections are based on information received from the producers themselves. For competitive reasons they tend to be very conservative in publicizing their development plans. Technological change also tends to increase ultimate recovery and as existing investments are paid off, new investments in enhanced recovery become economic. All of these factors contribute to conservative forecasts.

Expenditures

- To provide realistic projections of the actual costs of running state programs so that the fiscal gap can be fully appreciated, agency operations expenditures are projected to grow by inflation and one half of the projected statewide population increase, which takes into account the primary drivers of government costs while reflecting some efficiencies and economies of scale.
- Under this approach, expenditure projections start from an estimated FY 96 budget of \$2.5 billion and increase to \$3.4 billion in FY 2005.
- The long-term effects of high cost operations items such as presumptive sentencing laws and unfunded maintenance of the state's infrastructure are not included in operations projections, though they are likely to show up as capital costs in the future.³ (The deferred maintenance issue is discussed in some detail in a later section.)
- Formula programs, listed in Table 3, make up the largest and fastest growing proportion of the operating budget.
- Projected growth in formula program costs varies widely from the Longevity Bonus program which has been capped and is declining to Medicaid which has been growing at a rate of 15.5% per year.
- Formula program growth will be greatly affected by changes at the federal level during the next few years, which are likely to shift additional costs to the state particularly for welfare and health programs.
- Education, which is also a formula program, is the biggest single piece of the operating budget and is often singled out for special consideration in the fiscal planning process.
- The debt service schedule assumes no additional debt is issued. (see Table 4.) A more detailed discussion of debt policy is included in a later section.
- Capital budget projections are tentative Knowles administration targets. Table 5 provides a snapshot of how capital spending is currently distributed.

³For example, the three strikes provision in criminal sentencing would effectively increase prison terms of certain felons from an average of 12.5 years to 40 years. The true cost of this legislation will not show up for several years but is projected to result in 450 more long-term prisoners (on top of an 8% projected increase in prisoners) before leveling off and is likely to require an additional \$80 million prison. Likewise the Department of Transportation has consistently requested \$2 million for maintenance of additional lane miles added during the past two years, which the Legislature has not funded. The cost of unfunded maintenance will inevitably show up in a capital request at a later date.

Constitutional Budget Reserve

- The base case scenario shows the impact of continuing current spending patterns without any new revenue sources. The difference between revenues and expenditures would be made up entirely from the Constitutional Budget Reserve (CBR).
- Oil and gas tax and royalty settlements go into the CBR. They are conservatively estimated at \$150 million per year during FY 97 – 2000. No additional CBR revenues from settlements are anticipated after this period. (Outstanding oil and gas tax and royalty disputes are discussed in Appendix I.)
- Absent any significant changes in the state's revenue or expenditure outlook, a fiscal gap of \$573 million in FY 96 would continue to steadily increase each year and the CBR would be drained by FY 2000.
- If the state were to continue deficit spending and drawing down of reserve funds, the state's cash flow situation would become an issue as well as the availability of additional liquid reserves. These issues are specifically addressed in later sections.

The three framed columns in Table 2 below, correspond to the specific time horizon benchmarks set for the Commission in its enabling resolution (SCS CSHCR 1).

Table 2

"BUSINESS AS USUAL" PROJECTION - BASE CASE

NOTE: This projection does not reflect any out year decisions by the legislature or administration; it is intended to illustrate the potential fiscal gap in the absence of budget or revenue adjustments, and the fiscal effects of relying on reserve funds to balance the budget. The FY 95 budget is that approved last spring plus supplementals of \$43.6 million. The FY 96 budget is an estimate of what will be approved by the Legislature.

This scenario has no new revenues, major budget changes, or sale of assets (e.g. AHFC portfolio). Status Quo Budget/Uses Constitutional Budget Reserve to fill the fiscal gap.

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Average Oil Price (\$/bbl.)	16.84	16.52	16.62	17.42	17.97	18.64	19.34	20.06	20.81	21.59	22.39
Oil Production (MMbbl/day)	1.574	1.503	1.457	1.418	1.375	1.342	1.304	1.246	1.195	1.146	1.103
REVENUES (\$ Millions):											
RECURRING-PETROLEUM	1,580.8	1,477.7	1,540.2	1,622.3	1,653.8	1,668.3	1,680.3	1,647.0	1,627.1	1,611.5	1,587.8
RECURRING-OTHER SOURCES	312.2	301.3	292.8	299.8	309.4	318.4	327.4	336.7	345.7	355.0	364.7
*NONRECURRING SOURCES	379.7	154.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
TOTAL UNRESTRICTED GENERAL FUND REVENUES	2,272.7	1,933.0	1,923.0	2,012.1	2,053.1	2,076.6	2,097.8	2,073.7	2,062.8	2,056.5	2,042.5
EXPENDITURES (\$ Millions):											
**OPERATING	2,197.0	2,228.6	2,322.8	2,425.4	2,532.6	2,644.5	2,759.9	2,880.4	3,004.7	3,132.8	3,264.8
DEBT SERVICE	133.0	100.3	86.6	81.5	72.8	50.8	33.4	20.5	16.5	15.2	14.4
CAPITAL	100.4	135.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
LOANS/TRANSFERS/SUPPS.	130.9	42.5	29.5	29.5	29.5	29.5	29.5	29.5	29.5	29.5	29.5
TOTAL EXPENDITURES	2,561.3	2,506.4	2,563.9	2,661.4	2,759.9	2,849.8	2,947.8	3,055.4	3,175.7	3,302.5	3,433.7
PROJECTED FISCAL GAP	-242.1	-573.4	-640.9	-649.3	-706.7	-773.1	-850.1	-981.8	-1,112.9	-1,246.0	-1,391.1
CONSTITUTIONAL BUDGET RESERVE											
***BALANCE IF FISCAL GAP FILLED ENTIRELY WITH CBR	1,965.3	1,741.9	1,601.0	1,101.7	545.0	0.0	0.0	0.0	0.0	0.0	0.0
REMAINING FISCAL GAP						78.1	850.1	981.8	1,112.9	1,246.0	1,391.1

*FY 96 = \$38.2 Rev. Adj. + \$70 AHFC + \$45.8 Exec Life. FY 97 - 2005 assumes \$40 revenue adjustments + \$50 AHFC dividend each year.

**FY 97-2005 agency operations projected to increase with inflation and 1/2 population growth.

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

Table 3

MODEL FOR ASSESSING FORMULA PROGRAM GROWTH FY 95 - 2000

GENERAL FUNDS (\$ thousands)

Does not include policy decisions beyond those made in the FY 96 budget.

AGENCY / PROGRAM	FY95	FY96	FY97	FY98	FY99	FY2000	NOTES
ADMINISTRATION							
-Leases and Facilities	24,863.1	24,390.5	24,888.3	25,814.3	26,339.2	32,816.2	FY 95 includes shortfall/supplemental of \$63.3. FY 97 and beyond = 3% inflation, 3% replacement and standard CPI adjust. Projections based on 1994 entrants @ \$200/mo, 1995 @ \$150/mo, 1996 @ \$100/mo. No new applications after 12/31/96. Salaries estimated @ current level. Health insurance increases @ 7%/yr and prospective retirees enter @ 60. No deaths.
-Longevity Bonus (ALB)	72,709.9	72,602.8	71,223.1	69,994.8	62,304.3	57,715.9	
-Elected Officials Retirement	844.9	818.1	875.5	1,021.0	1,060.3	1,085.5	
DOA AGENCY TOTAL GENERAL FUNDS	98,257.9	97,809.2	97,087.9	93,599.9	89,723.8	91,427.6	
COMMUNITY AND REGIONAL AFFAIRS							
-Day Care Assistance	484.4	508.8	534.1	580.8	588.8	618.2	Growth projected at 3%/yr.
-Revenue Sharing	28,249.1	27,888.2	28,249.1	28,249.1	28,249.1	28,249.1	
-Municipal Assistance	34,364.4	33,825.8	34,364.4	34,364.4	34,364.4	34,364.4	From return on PCE Capitalization Fund = 3%/yr and assumes program growth of 3%/yr - not general fund.
-Power Cost Equalization	19,835.0	19,907.7	19,987.8	19,775.8	20,171.1	20,574.5	
DCRA AGENCY GENERAL FUND TOTAL	81,732.9	81,330.3	82,535.4	82,849.9	83,373.4	83,806.2	
EDUCATION							
-K - 12 Support							
-Foundation Program	800,715.3	817,216.2	832,848.6	848,482.8	864,874.3	881,291.2	Assumes an annual enrollment increase of 2.5%.
-Tuition Students	1,731.2	1,731.2	1,774.5	1,818.8	1,864.3	1,910.9	
-Boarding Home Grants	355.0	185.9	180.5	185.3	200.2	205.2	Status quo program with no growth.
-Youth in Detention	800.0	800.0	800.0	800.0	800.0	800.0	
-Schools for the Handicapped	3,447.6	3,705.2	3,797.8	3,892.8	3,990.1	4,089.6	Assumes an annual student enrollment increase of 2.5%.
-Pupil Transportation	31,544.8	32,842.2	33,991.7	35,181.4	36,412.7	37,687.2	
-School Debt Refinancing	103,345.3	90,322.4	54,825.0	51,956.2	49,485.2	39,567.4	Growth estimated at 3.5%/yr based on COLA and other contract issues.
-Community Schools	600.0	600.0	600.0	600.0	600.0	600.0	
DOE AGENCY GENERAL FUND TOTAL	742,558.2	737,403.1	728,626.1	742,807.3	758,006.8	768,151.7	
HEALTH AND SOCIAL SERVICES							
-Assistance Payments							
-AFDC	59,435.4	58,906.8	64,048.0	67,848.3	71,248.8	74,849.0	Assumes historical average caseload increase of 6%/yr and no increase to current maximum payment.
-Adult Public Assistance	35,848.7	38,818.5	41,788.8	44,997.5	48,522.9	49,081.8	
-General Relief Assistance	991.9	991.9	1,051.4	1,114.5	1,181.4	1,252.3	Underfunded in FY 95 resulting in 11.6% increase for FY 96. Growth from FY 96 on estimated at 6%.
-Old Age Assist ALB Hold Harmlsses	2,402.1	2,298.1	2,148.1	1,999.1	1,848.1	1,699.1	
-Admin/Child Care Benefits	2,094.2	2,227.2	2,380.8	2,502.4	2,652.8	2,811.7	Reflects current law that classes ALB to new participants after 12/31/96.
-PFD Hold Harmlsses	21,955.0	22,318.1	23,431.9	24,803.5	25,833.7	27,125.4	
-Medical Assistance							
-Medicaid Facilities	62,825.4	73,710.1	81,818.2	90,818.2	100,808.2	111,897.1	Health care expenditures assumed to increase at 11%/yr growth for FY 96. Historical average is 15.5%/yr.
-Medicaid Non-Facility	67,580.7	71,870.2	83,010.1	95,878.8	110,737.5	127,901.8	
-Medicaid State Programs	2,081.7	3,898.2	3,809.1	3,923.4	4,011.1	4,162.4	Assumed to grow at 3% rate of inflation.
-ALB Hold Harmlsses	85.7	25.7	25.7	25.7	25.7	25.7	
-General Relief Medical	8,584.5	7,348.5	8,783.9	10,145.4	11,717.9	13,534.2	Hold harmlsses programs expected to remain relatively constant.
-Waiver Services	2,364.8	3,740.9	8,896.8	10,142.1	12,370.1	14,598.0	
-Purchased Services							
-Foster Care	8,973.4	7,887.1	10,085.2	10,387.8	10,699.4	11,020.4	Home and Community Based Waivers projected to increase rapidly thru FY 97 and then slow to MA rate.
-Subsidized Adoptions/Guardians	3,093.3	4,178.8	4,389.0	4,363.0	4,369.0	4,369.0	
-Social Services Block Grant	6,394.7	6,310.8	6,394.7	6,394.7	6,394.7	6,394.7	Projected at 3% annual growth.
DHSS AGENCY GENERAL FUND TOTAL	292,591.5	305,131.5	342,031.3	374,047.3	410,450.9	450,721.4	
MILITARY AND VETERANS AFFAIRS							
National Guard Retirement Benefits	1,104.4	1,104.4	1,104.4	1,104.4	1,104.4	1,104.4	Assumes stability in National Guard and accuracy of actuarial estimates.
FORMULA PROGRAM TOTAL OF	1,268,240.9	1,222,878.8	1,281,388.2	1,294,888.7	1,342,859.3	1,389,211.3	
FORMULA PROGRAM TOTAL FUNDS	1,527,757.1	1,565,490.3	1,631,459.6	1,715,557.9	1,810,551.1	1,913,888.3	Includes federal and other funds.

Some Issues Relating to Base Case Projections

Debt Policy Issues

The state, agencies such as Alaska Housing Finance Corporation (AHFC) and Alaska Industrial Development and Export Authority (AIDEA), and municipalities in Alaska sell bonds in the national financial markets. In general, the credit rating for these bonds will be higher and the interest rate will be lower, and the national financial markets will respond more positively to the issuance of Alaska public debt if a comprehensive long range plan has been adopted and is being implemented.

Bond Funding of State Capital Expenditures

- Forty-one states issue general obligation debt to fund capital expenditures.
- General obligation bonds are the least costly type of debt financing for a state.
- Issuance of general obligation debt requires approval of the voters of the state.
- About \$1.4 billion of Alaska G.O. bonds were issued between 1958 and 1984, when the last bond issue was made. Currently outstanding G.O. bonds total \$58 million.

Debt Maturity Policy and Debt Capacity

- The computation of state debt capacity includes the annual debt service on all state G.O. and state-supported debt (e.g., school construction debt).
- The general guideline followed by rating agencies is that debt service payments should not exceed 5% of revenues to maintain a AA rating, although Alaska has exceeded this guideline in the past.
- Past policy has been generally to restrict maturities to the Prudhoe Bay revenue curve.
- The credit rating services have insisted on this debt maturity policy in order to maintain the State's AA bond rating.
- Debt maturities could be extended beyond the Prudhoe curve if new sustainable revenues are implemented by the State.
- Table 4 shows that under the 5% guideline, the state will not be able to issue any new debt until FY 97.

Table 4

DEBT SERVICE PROJECTION FY 95 - 2005

Includes only debt issued as of 4/95
(\$ Millions)

TYPE OF DEBT	FY 95	FY 96	FY 97	FY 98	FY 99	FY 2000	FY 01	FY 02	FY 03	FY 04	FY 05
Lease/Finance											
Alaska State Housing Authority	1.5										
Spring Creek		4.2	4.2	4.2	4.1	4.2					
Seward Student Ctr.		0.7	0.7	0.7	0.7	0.7					
Palmer Courthouse		0.4	0.4	0.4	0.4	0.4					
Kenai Courthouse		0.6	0.6	0.6	0.6	0.6					
Wildwood Aquisition		1.0	1.0	1.0	1.0	1.0					
Wildwood Improvements		1.0	1.0	1.0	1.0						
Court Plaza		1.0	1.0	1.0	1.0	1.0					
Anchorage Times		0.8	0.8	0.8	0.8	0.8					
Total Lease/Finance	10.2	9.6	9.5	9.5	9.5	8.6	6.4	5.9	5.9	4.9	4.1
State General Obligation	22.9	21.3	16.5	14.2	8.8	2.4					
School Debt - State Portion	103.3	79.1	54.8	52.0	49.5	39.6	26.8	14.4	10.4	10.1	10.1
University - State Supported	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total Debt Service	136.6	110.2	81.1	75.9	68.0	50.8	33.4	20.5	16.5	15.2	14.4
Remaining Debt Capacity											
- At 5% of GF Revenues	0.0	0.0	27.5	51.4	61.0	131.7	104.9	66.5	22.5	5.6	0.6
- At 8%	101.2	135.6	102.4	64.8	68.0	135.7	108.5	62.4	22.4	4.5	0.0

Capital Spending

- Historically, the capital budget has been the most volatile element in state spending.
- During the oil revenues era, the general fund capital budget has varied from \$92 million in FY 80 to \$1.2 billion in FY 85. It was \$100.4 million in FY 95.
- During the past 17 fiscal years, the average Alaska general fund capital budget has been \$436 million.
- There are a number of large segments of the state's capital spending plans that have acted as a floor for a minimal level of capital spending totaling perhaps \$125 million. These are:
 - The school construction funding priority list – \$25 million;
 - Local sanitation construction priority list – \$40 million;
 - Municipal and unincorporated community matching grants – \$20 million;
 - Transportation funding to match federal dollars – \$40 million.
- During the past several years, much of the capital budget has become depoliticized and disbursed according to objective criteria and priority lists.

(Note that the figures presented in Table 5 are for illustrative purposes only – to show conceptually how capital spending is prioritized by category. At this writing the capital budget is a moving target. The actual capital budget passed by the Legislature is likely to be significantly different than what is presented below. Also the amount presented herein does not correspond to that shown in the Base Case due to differing funding source definitions.)

Table 5
FY 96 Capital Projects Proposed by Governor
(\$ thousands)

Category	General Funds	Federal and Federal/Other Funds	Total
Education (K - 12 and University)	27,257.1	1,540.0	28,797.1
Social Services		72,563.3	72,563.3
Health and Safety	44,141.0	30,353.0	74,494.0
Natural Resource Management and Environmental Conservation	5,150.0	7,678.9	12,828.9
Public Protection		1,700.0	1,700.0
Administration of Justice	13,967.2	8,880.0	22,847.2
Economic Development	2,163.0	16,600.0	18,763.0
Transportation	40,800.0	343,103.0	383,903.0
General Government	3,586.5	5,179.7	8,766.2
Capital Matching Grants for Communities	20,000.0		20,000
 Grand Total	 157,064.8	 487,597	 644,662.7

Operation and Maintenance Costs of Alaska's Public Infrastructure

The complete cost of maintaining public infrastructure is not included in the Base Case projections provided to the Commission. However, a good argument could be made that unfunded or deferred maintenance is a cost to the public that ought to be included as part of the "true fiscal gap."

Public Buildings

As of the end of FY 94, Alaska's public buildings were valued at \$2.9 billion. The true cost of maintaining our 1,805 public buildings is \$64 million per year, as enumerated in Table 6. Several issues related to maintaining public infrastructure are discussed below:

Operations Costs

- Operations costs are fixed costs associated with the day to day operation of a public facility. Personnel costs, utilities, janitorial, grounds maintenance and risk management fees are basic costs of operations and are funded as such in each agency's budget.

- Operational expenses generally take precedence over other expenses. However, maintenance and repair and renewal and replacement costs are just as tangible in the life cycle of public buildings but are often not adequately funded.

Routine Maintenance and Repair

- Routine maintenance is the day-to-day scheduled and preventative maintenance required to keep buildings operational and in a continual state of readiness. Minor repair is also included in this category.
- Routine maintenance costs for Alaska's public buildings is estimated at \$35 million per year.
- The average age of Alaska's public buildings is 23 years old; many of the facilities built during the 80s boom years are now reaching the expensive stage of their useful life.

Renewal and Replacement

- Renewal and replacement covers the scheduled replacement of worn out major building components and the retrofitting or replacement of obsolete or inefficient building systems. Upgrading to current codes is also included in this category. Renewal and replacement funding maintains and in some instances extends the useful life of facilities.
- Renewal and replacement costs for Alaska's public buildings is estimated at \$29 million.

Deferred Maintenance

- Institutions do not normally program for deferred maintenance but it becomes a fact of life when annual resources are not sufficient to complete the work required to keep facilities in optimal condition.
- Over the long term, it is much less costly to maintain facilities than to let them deteriorate to the point where it is not cost effective to keep them operational and new construction is required. Thus deferred maintenance is a real measure of the cost of neglect.
- The deferred maintenance backlog is estimated at \$251 million.

Table 6
Facilities Maintenance Model

Agency	No. of Bldgs.	Square Feet	Average Age	Replacement Value	(1) Maintenance & Repair	(2) Renewal & Replacement	Required O & M, Repair & Replace Budget	Deferred Maintenance Backlog	Percent of Replacement Value
Courts	11	64,087	19.5	102,285,829	1,534,287	1,173,279	2,707,566	1,755,300	1.7%
DCED	12	16,970	11.8	3,108,015	46,620	21,573	68,194	0	0.0%
ADFG	304	518,785	24.1	104,183,442	1,562,752	1,476,954	3,039,705	3,702,000	3.6%
DHSS	36	538,779	16.0	203,939,469	3,059,092	1,919,430	4,978,522	13,552,500	6.6%
DMVA	82	593,598	23.8	82,999,492	1,244,992	1,152,228	2,397,221	2,905,952	3.5%
DNR	151	288,938	22.8	23,627,196	354,408	316,882	671,290	2,860,100	12.5%
DOA	12	492,327	21.2	118,580,047	1,778,701	1,478,763	3,257,464	9,838,300	8.3%
DOC	82	1,034,379	17.0	320,740,575	4,811,109	3,207,406	8,018,514	12,365,000	3.9%
DOE	28	380,909	33.5	63,626,885	954,403	1,253,824	2,208,227	4,500,000	7.1%
DOT/PF	651	2,461,945	21.6	357,181,516	5,357,723	4,538,306	9,896,029	44,281,000	12.4%
DPS	62	270,259	19.9	76,102,155	1,141,532	890,843	2,032,375	1,199,900	1.6%
Legislature	2	118,540	46.0	32,815,230	492,228	887,942	1,380,170	385,000	1.2%
University	372	4,860,691	21.8	847,542,799	12,713,142	10,868,490	23,581,632	153,923,585	18.2%
Total	1,805	11,640,207	23.0	\$2,336,732,650	\$35,050,990	\$29,185,920	\$64,236,909	\$251,368,637	10.8%

Notes: (1) Association of Physical Plant Administrators Formula = $0.015 \times \text{Replacement Value}$.
(2) Modified Sherman - Dergis Formula = $0.75 \times \text{Replacement Value} \times \text{Age} / 1,275$.

Source: "Alaska's State Owned Buildings: An Inventory and Assessment," U of A Statewide Facilities Office, February 1995.

Alaska's Transportation Network: Highways, Airports, Harbors and Ferries

The state maintains 16,715 miles of public roads, 258 airports, 97 harbor facilities and 8 ferries. The state equipment fleet maintains 6,500 vehicles with an annual maintenance budget of \$20.2 million. Deterioration of the state's transportation network due to underfunding of annual maintenance is a significant cost to the economy. Standard engineering estimates provide the basis for the table below. These estimates are for facilities maintained by the state only – municipalities are responsible for maintenance of some portions of the road system, a few airports and several harbors, while the two international airports in Anchorage and Fairbanks have their own program receipts funding.

- Alaska is a growing state with massive infrastructure needs. The fundamental problem is to strike a sustainable balance in our capital and maintenance spending that allows for upkeep of existing infrastructure while continuing to build to support a growing economy.
- Experience has shown that when maintenance of public infrastructure is neglected for a period of years, political pressure builds and the result is likely to be a very large capital spending spree when revenues become available as was the case in FY 94 when \$606 million in state general funds was spent on capital projects, much of it to address deferred maintenance needs.

Table 7
DOTPF Estimated Maintenance Needs
(\$ thousands)

	Highways	Aviation	Harbors	Ferries	Total
Current M & O Funding	57,000	16,200	100	28,397	101,697
Additional Annual M & O Needed to Properly Maintain the System	16,000	4,500	4,000	2,603	27,103
Total Annual M & O Needed	73,000	20,700	4,100	31,000	128,800
Capital Infusion Needed to Eliminate Deferred Maintenance Backlog	30,000	12,000	30,000	8,000	80,000

Cash Flow Considerations

Cash flow is defined as the daily receipt and disbursement of cash into and out of the state's general fund. There is a distinction between the state's cash flow and its annual budget. That is, there is usually a timing difference between cash receipts and cash disbursements during any day, month or year even if the budget is balanced over the entire year.

Why is Cash Flow a Problem?

- The timing of cash receipts is fairly even over the year, based on oil revenue receipts. However, the timing of cash disbursements varies within each month and seasonally.
- Over the past five years, disbursements exceeded revenues by an average of \$340 million during the first quarter of each year due to the timing of the disbursement of state grants and capital expenditures.
- Capital expenditures, approved in one year, typically have a multi-year cash expenditures pattern. This is a particular problem for large spikes in capital spending as in FY 94, which is still affecting the state's first quarter cash flow.
- The state's general fund cash balance has been depleted because of continued budget deficits.
- Additionally, there has been a tremendous growth of separate funds created by statute, which means that previous pools of available cash are no longer available in the general fund.
- The implication for reserves policy is that not only does the state need to maintain a reasonable balance of liquid reserves to deal with potential oil price fluctuations, it also must take cash flow considerations into account. (A more detailed discussion of reserves policy is included in the "Tools" section.)
 - For example, adopting a reserves policy to protect against a \$3/bbl. swing in the annual average price of oil would require about a \$450 million minimum balance in liquid reserves;
 - An additional \$350 million cushion might be needed to accommodate an anticipated first quarter cash flow bulge;
 - Added together these requirements would argue for an \$800 million minimum liquid reserve balance to meet potential contingencies.

- Possible alternatives to maintaining a large liquid reserve balance include:
 - Short-term borrowing from the CBR (as long as it lasts);
 - Short-term borrowing from the Permanent Fund Earnings Reserve Account (ERA);
 - Short-term borrowing from the commercial market, through sale of taxable notes;
 - Short-term borrowing from the municipal market, on a tax-exempt basis; (This alternative is available only if there are no other state funds available for appropriation.)
 - Permanent infusion of cash into the general fund (from the CBRF, ERA, sale of state assets, etc.).

Forward Funding / Cash-Based Budgeting

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

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

Key Policy Issues

- Cash-based budgeting is particularly attractive for Alaska because of the exceptional dependence of our state revenues on the price of a single commodity — oil. While the revenues of other states are subject to some volatility — primarily from changes in economic conditions — and numerous states have faced large revenue shortfalls in recent years, no other state has consistently experienced the range of revenue fluctuations which Alaska has since Prudhoe Bay came on line in 1977.

- Adopting cash-based budgeting would not stabilize annual revenues. However, it would enable policy makers to know, with a high degree of certainty, just how much money will be on hand for the coming year's budget.⁴
- Under cash-based budgeting, a sharp drop in oil prices would still result in a sharp decline in state revenues, but no revenue shortfall would occur in the current year budget. The shortfall would need to be addressed in the next year's budget, but mid-year spending cuts would not be necessary, giving the Governor and Legislature more time to address the problem.
- The state now has a window of opportunity to implement cash-based budgeting, in that the combined cash reserves in the Constitutional Budget Reserve and the Permanent Fund Earnings Reserve Account total over \$3 billion — more than enough to adopt cash-based budgeting.
- The advantages of cash-based budgeting are clear. The major factor which argues against the approach is the high cost to implement it — approximately \$2.5 billion would have to be designated and held in reserve to implement the approach. It can be argued that this \$2.5 billion would not have to be "spent" to adopt cash-based budgeting; instead, it would be held in a reserve fund similar to the Constitutional Budget Reserve. However, the money would still be unavailable for other purposes, such as cushioning the state's fiscal gap or inflation-proofing the Permanent Fund.
- Although cash-based budgeting could provide budget stability and certainty for the next year's budget by postponing the effect of revenue shortfalls, it could limit the state's ability to offset these shortfalls and to cushion the fiscal gap, because most of the state's liquid reserves would have to be used to implement cash based budgeting. In this respect, cash-based budgeting could increase, rather than reduce, the impacts of the fiscal gap, and accelerate the need for spending cuts, new taxes, and other measures.

⁴It would still be necessary to project the revenue to be received between the time the Legislature was meeting and the end of the current fiscal year. Such remaining-months projections, however, have generally been within 3% of the amount actually received through June 30.

Use of Fiscal Tools

Every fiscal policy forum of the past several years has concluded that all of the available fiscal tools described in the following sections will have to be employed at some point to deal with the fiscal gap outlined in the Base Case section.

Spending Reductions

In some ways the spending reduction issue may be the hardest for the Commission to grapple with. Previous economic and fiscal summits have agreed that the public must be convinced adequate spending cuts have been made before moving on to the next step in addressing the state's long-term fiscal situation. However, the Finance Committees in the Legislature have been wrestling with the intricacies of cutting state programs for a decade. The past three administrations have made serious efforts at setting public service priorities and improving the efficiency of government operations. The Knowles administration will be conducting a thorough review of executive branch operations during the interim before the 1996 legislative session to identify areas for streamlining and set performance budgeting goals for agencies. In spite of all of this effort, we have yet to work through the "cut government cloud" and on to a path towards sustainability.

Key Considerations

- The size and shape of government is ultimately a political decision that will be decided in the political arena. The Commission may want to focus on what it can do to further that dialogue rather than setting specific targets or suggesting programs that ought to be modified or eliminated.
- Currently state spending supports nearly one third of total jobs in the economy, 25% of private sector jobs and half of local government jobs. The commission may want to address the question of budget reductions from the perspective of the presence of government in the economy.
- During the past decade, state spending has been minutely examined from virtually every conceivable angle to conceptually screen out nonessential programs. (See *The Difficulty of Defining Basic Services* in Appendix I.) Given this level of scrutiny, instead of applying its own screening process the Commission may want to:
 - define principles and guidelines for how to approach budget reductions;
 - set goals for where the state ought to be in 3, 5 or 10 years in terms of per capita spending for certain kinds of services or some other agreed upon measure(s).

Key Questions

- How do we know when the budget has been cut enough?
- Is there an optimal level of government spending or just a continual controversy?

Another approach the Commission might take is to leave the setting of the size and shape of government to our political institutions and instead concentrate on the sequence and timing of the use of the remaining fiscal tools relative to some spending level indicator. For example the Commission might recommend that when reserves fall below a certain amount, that a tax or some other fiscal tool be employed.

Should the commission wish to take a more detailed approach to budget reductions, several observations from previous forums might apply:

- Targets must be realistic.
- Major revamping of state work processes can probably yield further savings but the easy cuts have long since been made.
- Ideas such as regulatory reform and/or restructuring agencies may increase government efficiency over the long term but may not yield substantial spending reductions as long as government is required to perform all of the functions it is currently required by law to do.
- Economic impacts, distributional effects, long-term social consequences and fairness to the groups or individuals who will bear the brunt of cuts must be considered.
- Across the board cuts or "unallocated reductions" should be avoided because they just make all of government less efficient.
- State agency operations have absorbed the lion's share of budget cuts during the past five years – 24% in nominal terms and 32% in inflation adjusted terms. (A few formula programs have taken major cuts, e.g., municipal assistance and revenue sharing have been cut over 55% during the past 10 years.)
- Eliminating programs and/or pruning functions is a better approach than across-the-board percentage reductions.
- Formula programs continue to be the main engine of growth in operations spending and offer the greatest opportunity for controlling long-term costs.
- Adding a means test to entitlement programs with broad eligibility requirements is often cited in fiscal policy forums as a legitimate approach to cost cutting.

- **Nontraditional or unique Alaska programs should be a high priority to review for possible elimination or modification (see following table).**
- **Are there lines of business that the state no longer needs to be in?**
 - **Are there state functions we might pass on to local governments?**
 - **Opportunities for privatization?**
- **In addition to the above, several different screens might be applied to help determine the proper size and shape of government for the future:**
 - **Identify current functions and requirements in terms of broad program areas, e.g., public health, economic development, etc.**
 - **Set priorities within each program area.**
 - **Identify those that are the most expensive and fastest growing.**
 - **Which are required by constitution, state statutes and/or regulations, federal requirements or state policies?**
 - **What are the state's high "value added" functions?**
 - **Another screen to apply would be to compare average per capita spending in other states with Alaska and then look at functions to cut or eliminate where the cost of providing a particular service exceeds the overall ratio.**
- **Another way of determining the proper size and shape of government is to think of it in terms of goals for the future – where the state should be and what government should be doing differently in 2005 or 2020.**
 - **Real world benchmarks (e.g., high school graduation rate, percentage of preschool children receiving inoculations, etc.) provide a means of determining how well government is doing in fulfilling priority functions and achieving goals.**
 - **Performance measures of the effectiveness of programs in achieving benchmarks can help determine the appropriate level of resources needed to realize the state's goals (e.g., dollars spent vs. progress made).**

Table 8

Unique Alaska Programs FY 95 Appropriations

(\$ thousands)

School Debt Reimbursement	103,300
Longevity Bonus Program	73,410
Municipal Assistance	33,925
Pioneer's Homes	30,039
UA Outreach Colleges	18,429
PF Dividend Hold Harmless	21,955
Power Cost Equalization	18,635
Permanent Fund Corporation	27,458
Tourism Marketing Council	4,993
PF Dividend Administration	4,467
Mt. Edgecumbe Boarding School	2,212
Contract Jails	4,445
Longevity Bonus Hold Harmless	66
Subsistence Division	1,692
RATNET	1,190
 General Fund Subtotal	 \$346,216
 Permanent Fund Dividends	 \$585,000
 Grand Total	 \$931,216

•Note these are programs that are either only found in Alaska or are funded by state general funds to an extraordinary degree when compared to other states.

Potential New Taxes

The Department of Revenue is conducting a comprehensive review of current and potential taxes which will be completed by late June and will be presented to the Commission at the August 26 meeting. (A schedule of current taxes and their yields along with a summary list of potential taxes was provided to members in the Hickel summit workbook.) For purposes of the initial work session, a brief update of information on general tax measures affecting individuals and households is provided. The intent is to provide some guidance for thinking about particular tax instruments.

General Tax Measures Key Issues

Alaska is one of 7 states with no personal income tax and one of 5 with no sales tax. It is the only state with neither. With fiscal projections indicating a large and increasing structural deficit, with limited expectations of future lump sum oil tax and royalty settlements, policy makers are going to have to consider additional revenue sources.

Considerations for evaluating general tax measures include:

- equity of application (does it apply to everyone?);
- fairness in terms of ability to pay;
- incidence of taxation (who actually pays), particularly the ability to tax nonresident visitors and workers;
- social and economic impacts;
- and, ease of administration and potential for realizing administrative efficiencies by piggy-backing state and local taxes.

Personal Income Tax \$75 million first year; \$250 – \$400 million/yr. thereafter

- Forty-three states have personal income taxes; rates vary from 0.4% to 11% of taxable income, with two states applying it as a percentage of federal tax liability.
- Among the various states, the personal income tax is employed second only to the general sales tax as a revenue source, accounting for about 30% of total state revenues.
- The amount generated depends on the rate at which it is applied and the number of adjustments and credits allowed.
- Prior to repeal in 1980, Alaska's personal income tax was based on the adjusted gross income (AGI) computed on each individual's federal tax form. A person's AGI was taxed on a sliding scale ranging from 3 – 14.5%.

- Our ability to accurately project personal income tax revenues has atrophied since repeal. DOR is examining the cost of developing a model to provide reasonable estimates of varying personal income tax proposals.
- As a taxing instrument, the personal income tax has four basic advantages:
 - It is the only major state tax that is progressive, i.e., is applied according to ability to pay.
 - It is deductible from each individual's federal income tax, thus placing part of the burden on the federal government.
 - Its revenue tends to rise faster than the growth of the economy.
 - It would capture a portion of the earnings of nonresidents working in Alaska.
- The personal income tax has four main disadvantages:
 - Its revenue stream tends to be relatively volatile.
 - It is less popular among voters than a sales tax.
 - It taxes earnings rather than consumption, thus providing no incentive for savings.
 - Because of the number of total returns, it is relatively more expensive to administer than a sales tax.⁵

Statewide Sales Tax

1% = \$50 million: 6% = \$216 million/yr.⁶

- Forty-five states have sales taxes with rates ranging from 3.5% to 8%; the median tax rate is 5%.
- State sales taxes provide nearly one third of general revenues raised by state governments.
- A comprehensive sales tax is more regressive than an income tax because it applies equally to consumption by people at all income levels, i.e., poor people spend a larger share of their income on purchases of goods and services and therefore pay a greater proportion of their income in tax.

⁵For example Montana spends about 1.2% of revenues to administer an income tax – revenues total about \$350 million per year with an administrative budget of \$4.2 million and 100 employees.

⁶The 6% rate is used instead of the median national rate because ISER had an already developed estimate of the tax yield. There is some elasticity to sales tax receipts, i.e., as the percentage rate increases revenues increase at a slower rate.

- To reduce the regressive nature of the sales tax, 28 states exempt food purchases; 43 states exempt prescription drugs; 32 states exempt at least some natural gas, heating fuel and/or electric utility payments; five states exempt clothing purchases; and four states allow sales taxes to be credited against state income taxes. Only three states have comprehensive sales taxes on all personal and professional services.
- Sales taxes have traditionally been supported by the higher income proportion of the population when the alternative is increased income or property tax. In fact, the sales tax is the most popular of the general taxes on the population, probably because it is paid a little at a time and is less noticeable than income or property taxes.
- The sales tax has several advantages:
 - It is not particularly costly or difficult to administer with many fewer returns to deal with than an income tax.⁷
 - Many states with both state and local general sales taxes gain administrative efficiency by piggybacking local tax collection onto the state tax system.
 - Piggybacking may provide some incentive for communities to develop their own tax bases or to incorporate.
 - It can be designed so that revenue grows in direct proportion to the economy.
 - It is relatively popular with voters.
 - It captures revenues from nonresidents (but not very efficiently).
 - It taxes consumption and does not affect savings.
- The sales tax also has a few disadvantages:
 - It is regressive in terms of taxing citizens according to their ability to pay.
 - Depending on the number of exemptions – if applied too narrowly, the sales tax is relatively volatile, with revenues falling sharply in recessions.
 - The sales tax is not deductible from federal income tax.

⁷ Montana recently introduced a 4% sales tax in its Legislature that was expected to generate \$275 – \$290 million with monthly collections amounting to 800,000 returns and an administrative cost of 1.8% of collections. Quarterly collections would require less paperwork.

Employment Tax

\$100 per job = \$40 – \$50 million per year

- The employment tax could be applied all persons age 19 and older holding a job, whether employed by others or self-employed, similar to the old "school tax" which was repealed in 1980.
- About 25% of the total tax collections would come from nonresidents working in Alaska (estimate by DOL for Hickel proposal).
- Collection of the employment tax could be streamlined by linking the collection of the tax for employees with other payroll taxes collected by the state.
- Self-employed persons could be billed through their business or commercial fishing license application file.
- The main drawback to the employment tax is that it is regressive. However, because of the modest amount of the tax, a person working at a \$5 per hour job would pay less than one percent of their annual income in employment tax.
- The regressive nature of the tax could be offset by spreading the collection of the tax over more than one paycheck.

Statewide Property Tax

One mill = about \$28 million per year

- Projected oil and gas property tax collections for FY 95 total \$319 million, of which, all but \$64 million was passed through to municipalities.
- The full and true value of petroleum facilities statewide is estimated at \$16 billion, while all property within organized municipalities is estimated at \$28 billion (petroleum facilities excluded).
- Property values within organized municipalities are well known but estimates for communities within the unorganized borough are highly speculative.
- The disparity in property wealth among communities in the state ranges from \$4,395 per capita in Point Hope to \$1.4 million in the North Slope Borough.
- Except for oil and gas property, much of the property in the unorganized borough is exempt from taxation because it is comprised of Native allotments under ANCSA – there is very little cash economy in the bush to support a property tax.
- Administration of property taxes is a very labor intensive business and the amount of effort that would be needed to equitably administer a statewide property tax would be considerable.
- Very few states have comprehensive statewide property taxes though several have centralized assessment and collection of taxes on certain types of property, similar to our oil and gas property tax. Several municipalities have approached

the state assessor's office about the possibility of centralized assessment and collection of property tax on airplanes and boats.

Economic Development as a Revenue Generating Tool

All of the previous fiscal policy summits have recognized that economic development will play some undefined role in generating additional future state revenues. Work for the Hickel summits (updated in table below) demonstrated that at current rates, revenue generated from direct taxation of non-petroleum businesses could play a significant role in balancing revenues with expenditures during the next 10 years. However, all previous fiscal policy forums have concluded that it is not possible for the state to simply grow out of the current fiscal gap.

Key Issues from Other Forums

- The official Department of Revenue position is that while lifting the export ban is a very real near term possibility, the TAGS project and development of ANWR are unlikely to occur within the commission's ten year time horizon. (Potential revenues from the Gasline, ANWR and lifting the export ban are dealt with specifically in Appendix II.)
- More information on the potential uses of North Slope natural gas will become available in early June, when the major producers are due to release the findings of a cooperative study of gas alternatives.
- Other fiscal policy forums have acknowledged that the state has chosen to take its return on the development of public resources (other than oil) in the form of private sector jobs and profits rather than public revenues.
- Several forums have noted that it often costs more to support, manage and regulate our natural resource industries than they return to the state in the form of general fund revenues.
- Virtually every other fiscal policy forum has concluded that indirect taxation of income, payroll and/or consumption are more appropriate means of collecting state revenues from most kinds of economic development than additional direct taxes on businesses.

Potential Policy Issues

- What weight should be given to potential economic development revenues in the state's long-term fiscal strategy?
- From a fiscal policy perspective, what is state government's role in promoting economic development? Possibilities might include:
 - expanding and diversifying the tax base;

- providing a positive business climate;
 - allowing tax credits and exemptions;
 - offering subsidies to certain industries or businesses;
 - generic promotion, e.g., ASMI, Tourism Marketing Council, etc.;
 - disseminating information and/or providing market research for business;
 - providing or facilitating financing;
 - other?
- What role, if any, should future state and local revenue generation play in forming the state's economic development policy?

Table 9

**Potential Additional Economic Development Revenues
(in millions of FY 95 \$)**

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Speculative										
Lift Export Ban	80.0	40.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Optimistic										
Mining	1.0	7.6	9.8	12.0	13.1	14.4	15.8	17.4	19.2	21.1
Timber	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Seafood	1.9	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.6	2.7
Tourism	2.6	2.7	2.9	3.1	3.2	3.4	3.6	3.9	4.1	4.3
Other	26.6	30.9	33.4	36.1	38.9	42.1	45.4	49.1	53.0	57.2
Total	114.1	83.2	68.1	73.3	77.5	82.2	87.3	92.8	98.8	105.3

Assumptions: Export ban lifted in FY 96 with later revenues corresponding to forecast of West Coast crude surplus.
Mining—all projects currently in the development stage go into production by 2000, with revenue from additional projects increasing at a real rate of 10% per year thereafter.
Timber—FY 95 revenues of \$400,000 projected to grow at the 10 yr. real industry average of 6%.
Seafood—FY 95 revenues (net of pass thrus) = \$44 million. Growth occurs at 10 yr. real average of 4%.
Tourism—FY 95 revenues estimated at \$40.4 million with visitor growth increasing at 6% per yr.
Other—FY 95 nonpetroleum revenues=\$331.3 million projected to increase at 10 yr. real rate of nonpetroleum GSP growth (8%).

Reserve Funds

Key Policy Issues

Alaska is fortunate to have over \$3 billion in liquid reserve funds and additional less liquid reserves and assets. These substantial reserves constitute one of the primary fiscal tools which the state can, and has used, to temporarily fill the fiscal gap. However, these large reserve balances also have a negative side, in that these reserves can delay the difficult actions necessary to close the fiscal gap for several more years, with the potential for suddenly magnifying the state's fiscal and economic problems when the reserves are finally exhausted.

One of the major policy issues facing the Commission is what role these reserve funds should play over the next several years in creating a stable fiscal future for the state.

Potential roles and uses of reserve funds include:

1. Use reserves to offset current budget shortfalls, thereby postponing the impacts of the fiscal gap and buying time to develop and implement fiscal solutions;
2. Minimize the current use of reserves, in order to maintain substantial reserves for offsetting even larger budget shortfalls which may occur in the future, and to cushion the state's adjustment to lower petroleum revenues;
3. Deposit all or some reserves into the Permanent Fund to increase sustainable long-term revenues;
4. Use reserves to establish forward funding for the state budget; and,
5. Maintain a minimum level of reserves as insurance against oil price volatility, and to meet cash flow requirements.

Additional policy questions regarding the use of reserve funds include:

1. In what priority should reserve funds be used, relative to other fiscal tools such as spending reductions, tax increases, and permanent fund earnings?
2. Should the state use only its liquid reserves in dealing with the fiscal gap, or should the state consider using some of the assets of state corporations such as the Alaska Housing Finance Corporation, the Alaska Industrial Development and Export Authority, and the Alaska Energy Authority?
3. If it is desirable for the state to maintain a minimum level of reserves to guard against sharp declines in oil prices, what is the appropriate level of reserves for this purpose?
4. Can major reductions in state services or increases in revenues be justified to the public while the state still has substantial liquid reserves?

Current and Past Use of Reserve Funds

In the current fiscal year — FY 95 — the state will spend about \$240 million in reserves to balance the budget. For FY 96, the state is projected to spend about \$573 million in reserves. The predominant use of reserve funds during the last several years has been to offset current-year budget shortfalls. However, it would not be accurate to say that spending reserve funds has been the state's only response to the fiscal gap. For example, since FY 90, state agency budgets have been cut by 24 percent in nominal dollars and 32 percent in real dollars (adjusted for inflation).

During the past ten years, the State of Alaska has used reserve funds in four of the five roles outlined above (forward funding is the exception).

The option of depositing reserves in the principal of the Permanent Fund is under consideration by the legislature as this is being written. SB 84, which was passed by the Senate in March, would transfer about \$900 million from the Permanent Fund earnings reserve account to the principal of the fund. This action would have the effect of increasing the long-term real earnings of the Fund by about \$45-55 million per year (in comparison to spending this \$900 million for another purpose).

Table 10
State of Alaska Fund Balances

(millions of dollars)

Fund	Amount	Notes
Constitutional Budget Reserve Fund	1,965.3	Projected balance as of June 30, 1995. This projected balance includes fund receipts through 5/1/95. Additional deposits of \$350 million will be made to the fund in both FY 96 and FY 97 under the 1994 BP settlement. Purpose of the fund is to save "windfall" revenues, and to offset annual revenue fluctuations and cushion longer term declines in revenues. Impact of spending from the fund is to reduce the state's ability to offset future revenue shortfalls.
Permanent Fund Earnings Reserve Account	1,148.0	Projected balance as of June 30, 1995 from the March 31 financial statements of the Alaska Permanent Fund Corporation. Purpose of the ERA is to offset potential future shortfalls in funds available for inflation-proofing the Permanent Fund. Impact of spending from the ERA is to potentially create a shortfall in inflation-proofing funds. However, this will depend on future earnings of the Permanent Fund and the impact is uncertain.
Science and Technology Endowment Fund	101.0	Purpose of the Science and Technology endowment is to finance development and commercialization of new technologies. Impact of spending part of all of the endowment would be to reduce or eliminate the scope of the program.
Alaska Housing Finance Corporation (AHFC)	445.0	This figure is an estimate by the Division of Legislative Audit of the amount that could be transferred from AHFC to the state's general fund as bond issues are paid off. The Division estimated that \$295 million could be transferred in FY 96, and an additional \$150 million could be transferred in FY 97. The purpose of AHFC's assets is to reduce the cost of home mortgages and to finance low-income housing. Spending these funds may reduce AHFC's ability to perform these functions.
Alaska Industrial Development and Export Authority (AIDEA)	17.0	AIDEA's estimate of its unrestricted assets. The purpose of AIDEA's assets is to finance industrial and commercial development. Spending these funds may reduce AIDEA's ability to finance new projects.

Permanent Fund Policy Issues

Key Issues

- What role should the Permanent Fund play in closing the fiscal gap?
- When should it be used, relative to other fiscal tools?
- What options for use of fund earnings should be considered?
- How much can the Permanent Fund contribute to closing the fiscal gap?

Possible Roles Of The Permanent Fund

- Treat the Fund as an integral part of the State's operative fiscal strategy.
- Treat the Fund separately from fiscal policy; e.g., as an ultimate insurance policy to protect against fiscal calamity, etc.
- Allow the Fund to grow until it is large enough to help finance state government at an "acceptable" or "sustainable" level.
- Other roles, or combination of roles.

Purpose?

- To pay out dividends to Alaskans.
- To save money for a "rainy day".
- To help pay for state government programs and services.
- To help develop Alaska's economy.
- To help "wean" state government from its dependence on volatile petroleum revenues; e.g., as Kuwait did.
- Other purposes, or combinations of purposes.

Timing Of Use

- Start using it now to help close the fiscal gap.
- Use it only under a defined set of circumstances; e.g., as part of a fiscal contingency plan, etc.
- Do not use it until absolutely necessary, whenever that is; i.e., as a "pot of last resort".

- "Schedule" its use as an integral part of a short-term/long-term fiscal plan.
- Use it only after FY 2000; i.e., when the fiscal gap is the greatest.
- Use it only after certain other fiscal steps have been taken; e.g., only after budget reductions have been made and/or a personal income tax has been adopted, etc.
- Other timing considerations or approaches, or combinations of them.

Fiscal Options For Using The Fund

- Use the Earnings Reserve Account balance to help support the budget.
- Re-invest the Earnings Reserve Account balance into the Fund, in order to stimulate the Fund's long-term growth.
- Limit the amount paid out as dividends to the real earnings of the Fund; i.e., the amount of earnings in excess of the rate of inflation.
- Make inflation-proofing the first priority use of the Fund's income, instead of dividends; i.e., to ensure the long-term value and earnings potential of the Fund.
- Reduce, cap or eliminate dividends and use the revenue generated to help support the budget.
- Reduce, cap or eliminate dividends and re-invest the generated revenue in the Fund for "X" years, in order to stimulate the Fund's long-term growth.
- Reduce, cap or eliminate inflation-proofing. (Or, conversely, provide for cumulative inflation-proofing, to make up for years when inflation-proofing deposits have been insufficient.)
- Decrease (or increase) the current stream of revenues dedicated to the Fund.
- Use a portion of the Fund's income for economic development projects; e.g., via the Alaska Industrial Development and Export Authority (AIDEA).
- Channel all state government revenue (dedicated and non-dedicated) through the Fund, and annually finance state government via a percentage of the Fund's overall market value (the "Cremo plan").
- Other fiscal options for using the Fund, or combination of options.

Permanent Fund Questions and Issues

USES AND EFFECTS At least from one perspective, the Permanent Fund consists of four potential "pots" or sources of funds:

- "Earnings Reserve Account balance"
- "Dividend Funds"
- "Inflation-Proofing Funds"
- "Principal"

What are the trade-offs (e.g., on Fund growth, on Fund value, on dividend amounts, on amounts available for general fund purposes, etc.) in taking money from one "pot" versus another, or any given combination of them?

RISK/ PREDICTABILITY

Managing investments more aggressively, in order to increase the Fund's rate of return, will entail accepting higher levels of risk than at present. While the expected higher return may be achieved over a given period, the effect of the greater risk may be to cause significant year-to-year fluctuations in income. This could have important implications for a fiscal plan. For example, the fluctuations might make it harder to achieve annual income targets for budget purposes. On the other hand, such fluctuations might not be so much of a problem if the income from the Fund were to be employed as part of a reserves strategy, or for dealing with contingencies, etc.

DIVIDENDS

If one purpose at least of the dividend program is to ensure a public which is interested in the Fund's use and preservation, how large does an annual dividend check have to be to ensure that?

INFLATION- PROOFING

Especially if more of the Fund's assets are to be invested in equities (e.g., stocks), instead of in fixed-income securities (e.g., bonds), do we need to inflation-proof the Fund as much as is done at present?

EQUITY

In considering the potential role of the Fund as a "tool" for closing the fiscal gap, how should we distinguish the rights of current Alaskans from those of future generations?

TAXATION

Which would be preferable -- to (e.g.) reduce dividends and use the money generated to support state government programs and services, or (e.g.) to leave dividends as they are but treat them as personal income for purposes of a statewide personal income tax? Why?

OVERALL

Looking at all of these (and other) options, how might we best begin the process of evaluating the potential future role(s) of the Permanent Fund? What areas of agreement or disagreement exist? What are the impediments of consensus? How can we get past those impediments, to get to the question of what we want the Permanent Fund to do for us?