SCOMM

122:17

COMMISSION ON PRIVATIZATION and Delivery of Government Services

October 8, 1999

Honorable Tony Knowles
Governor of Alaska
State Capitol Building
Juneau, Alaska 99801

Re: Privatization Commission

Dear Governor Knowles:

The attached September 28, 1999 article in the Juneau Empire is troubling because we believe it is true. It said:

> *"The issue of privatizing some state government operations is already tinged with politics...."*
>
> *"The Knowles Administration is characterizing the commission as blind to ethical conflicts of interest...an apparent pre-emptive strike by the governor on the group's forthcoming report to the Legislature."*
>
> *"Pugh is troubled by ties on the commission's corrections subcommittee to Texas-based Cornell Corrections, a firm that does more than half of the contracting for halfway houses in Alaska."*
>
> *"David Ramseur, deputy chief of staff...describes himself as the person who's been collecting strange stories about the commission from the executive branch."*

Additionally, copies have been sent to us of some of the same staff memoranda that were collected by Mr. Ramseur. And, the denigrating remarks made by some of your staff and commissioners are also relayed to us, to commission members and to subcommittee volunteers. It is clear that some people in your Administration are not invested in a positive outcome for the Privatization Commission and a campaign is underway to 'kill the baby in the cradle' before it issues its first word.

As legislators, we expect to be fair grist for your public relations juggernaut. However, in this case, Mr. Ramseur, et al, are targeting volunteer citizens to be your grist. This is flat wrong. These people are trying to achieve a goal that is set out in Chapter 61, SLA 1999, a law, which you signed without reservation.

Instead of thanking these citizens for trying to understand and improve their state government, your staff is making veiled threats about conflicts of interest and denigrating them. For example:

716 W. 4th Ave. Anchorage, AK 99501
Senator Jerry Ward: 907-269-0106 Fax 907-269-0109
Representative John Cowdery: 907-269-0222 Fax 907-269-0223
http://www.privatizealaska.org

> "Ramseur said the commission's subcommittees include people with 'pretty blatant conflicts of interest," a former state employee with a grudge about being fired and a relative of a property owner who's in conflict with state regulators about hazardous waste cleanup."

In fact, the *former state employee with the (alleged) grudge*, Ms. Andree McLeod, informs us that she never talked with Mr. Ramseur about her situation and she wonders why the governor's office characterizes her as a grudge holder. She is not holding a grudge. Her two meetings on this subject with Mr. Ayers were pleasant, by her account. Ms. McLeod is a single mother who was a range 9 accounting clerk. She was not fired. After the mandatory probationary period, she was not retained for permanent status. The reason she was not retained had more to do with supervisory incompetence than any failing on her part. She simply doesn't have the resources to sue the state. While Mr. Ramseur may take comfort in that, we can tell you that she is quite intimidated by being singled out, labeled and pejoratively referenced by such a high government official. She considers Mr. Ramseur's quote as proof that she will never get a fair shake while your administration exists. We think she's right. We hope you will correct this situation and restrain your staff from such heavy-handed treatment against citizens of our state.

As an aside, Ms. McLeod has been a volunteer coordinator for the Commission subcommittees, working out of Rep. Cowdery's office. We can attest that she has an outstanding work ethic, is very productive and brings intelligence and diligence to her assigned tasks.

Another reference was to *"a relative of a property owner who's in conflict with the state regulators about hazardous waste cleanup."* Mr. Virgil Norton is the referenced party. He is the son-in-law and Project Manager for the owner of a site that had a 20-gallon spill of PCE and additional contamination that migrated from offsite. Although the owner hired a nationally renown environmental consultant, Hart Crowser, spent $1 million to clean up the site and offered to treat the groundwater, DEC won't sign off on the clean up. Their standards are moving targets that are impossible to conclude. As Project Manager for the cleanup, under EPA, Mr. Norton learned the governing statutes and regulations. He gained valuable and unique experience in the way DEC follows them and doesn't follow them. It's been an awful experience for the owner and Mr. Norton. Can you imagine spending $1 million of your restaurant's money to clean up a problem that isn't defined and for which the DEC can't prescribe a solution. Now, to make matters worse, your staff wants to disqualify Mr. Norton from imparting the benefit of his experience to the Privatization Commission.

Ms. McLeod and Mr. Norton both feel they have been wronged by state actions. This doesn't require them to forfeit their rights. Chapter 61 SLA 99 specifically requires the Privatization Commission to solicit public comment. The subcommittee members are themselves a fulfillment of the statutory obligation. Mr. Ramseur's disqualification of them is tantamount to saying, "If you're not a Knowles loyalist, please don't try and exercise your civic duties or we'll go after you."

At this level of government, we are supposed to be able to deal with people who hold viewpoints that are contrary to our own. We're even supposed to encourage it. We question whether Mr. Ramseur understands the difference between his role as your Campaign Manager and as your

Deputy Chief of Staff. The campaign is over. As a government official, he needs to be restrained. We find this whole notion of his office keeping files on subcommittee members to be a bit pernicious. We recommend that this practice be stopped immediately.

The accusation of conflict of interest from your office has, and has had, a chilling effect on the unfettered participation from our volunteers. Consequently, for the sake of our volunteers we need to clear the air on this charge. Prior to the Empire story we already received an opinion from Legislative Legal Services that volunteers are not subject to the conflict of interest statutes. A copy is attached for your information. But, because the issue has been raised by your administration, in order to clear the air, we request a written opinion from the Attorney General as soon as possible. It will be provided to all commission members and volunteers.

Every commission, board and task force appointed by the governor would have as great or greater conflict of interest than the volunteers on the privatization subcommittees. Be they liquor license holders on the ABC Board, occupational license holders on occupational license boards, farmers on the Agriculture Revolving Loan Board, lawyers and judges on the Judicial Council ... they all are appointed because of their occupational nexus to the subject for which the board exists. Their expertise and experience are what make them valuable to the public process. Did Mr. Ramseur object when you made these appointments.

We need only look at your State Long-Range Financial Planning Commission and the Marketing Alaska Program to see citizen involvement in very similar functions as the Privatization Commission. Under what postulate can Mr. Ramseur charge our volunteers with a conflict of interest without similarly charging your appointees. Such machinations are tawdry even in a campaign context, but certainly have no place in the operation of the governor's office.

Governor, you said, in your state of the state address,

> *"I encourage questions, scrutiny and criticisms. We must engage Alaskans in a broad discussion about the future of our state."*

Those are good words, Governor, and they may be the basis on which we may be able to resume cooperation. But your staff must believe that you mean what you said. We urge you to eliminate the files being maintained in your office to discredit the Privatization Commission volunteers and to curtail the gutter-sniping emanating from your administration.

Yours truly,

John J Cowdery

Representative John J. Cowdery
Co-chair
Commission on Privatization and
Delivery of Government Services

Jerry Ward

Senator Jerry Ward
Co-chair
Commission on Privatization and
Delivery of Government Services

Enclosures

Web posted **Tuesday, September 28, 1999**

Pros and cons of going private

By BILL McALLISTER
THE JUNEAU EMPIRE

The issue of privatizing some state government operations is already tinged with politics, even as subcommittees of a task force begin making recommendations this week.

The Commission on Privatization and Delivery of Government Services picked up steam with the recent statewide advisory vote against using earnings from the Alaska Permanent Fund to balance the state budget, said commission co-chairman Jerry Ward, a Republican senator from Anchorage.

But the Knowles administration is characterizing the commission as blind to ethical conflicts of interest with subcommittee members who would personally profit from privatization - an apparent pre-emptive strike by the governor on the group's forthcoming report to the Legislature.

The move toward privatization is driven by the idea that competitive forces in the marketplace can deliver operational cost savings that government can't achieve.

Much privatization already has occurred in the state Department of Corrections: Alaska had 756 criminal inmates at a private prison in Arizona as of Monday, a program that costs about $16 million a year; a correctional facility near Delta Junction is being considered for private operation; and state halfway houses, with 682 residents and a $15 million annual appropriation, are in private hands.

Corrections Commissioner Margaret Pugh believes that, on balance, the state is getting good service for its money.

Still, Pugh is troubled by ties on the commission's corrections subcommittee to Texas-based Cornell Corrections, a firm that does more than half of the contracting for halfway houses in Alaska. The first subcommittee chairman was an employee of Cornell, and after his departure, former Cornell employee Sharon Anderson was named chairwoman.

``One should be extremely cautious about conflicts," Pugh said.

Anderson, however, did not see a problem: ``I don't know what they're talking about," she said.

It's unclear how much business the private sector might get.

No one has announced goals for privatization in terms of a percentage or a dollar figure that would be cut from the cost of government operations. As a result, it's open for speculation how much privatization - along with consolidation or elimination - would offset the need for new taxes or permanent fund-related budget solutions.

The term itself is open to some debate, as the commission's Website notes: ``Privatization runs a very broad range, sometimes leaving very little government involvement, and other times creating partnerships between government and private service providers where government is still the dominant player."

But one thing is clear, said Ward: This month's vote on the permanent fund shows that the public expects government to wring every last dollar of waste out of the system before imposing any solutions that hit the taxpayers' pocketbook.

``I think the people of the state of Alaska said that they don't want to give any additional funds to government," Ward said.

So far, there aren't many specific privatization proposals under debate.

Commission Co-Chairman John Cowdery, a Republican representative from Anchorage, said they're not hard to come up with, though. For example, Alaska State Troopers shouldn't be doing their own radio repair, and the courts shouldn't do their own transcriptions; that work should be contracted out to private companies, he said.

Although organized labor is often cited as opposing privatization, it's not front-line state workers who would be targeted, Ward said. Rather, it's middle management in state government that has increased, resulting in ``more filing of forms, more intergovernmental relations," he said.

``We don't have more people doing work. We have more people watching other people do work."

But if Ward thinks the executive branch is bloated, the governor's office portrays the commission as possibly out of control.

David Ramseur, deputy chief of staff to Gov. Tony Knowles, describes himself as ``the person who's been collecting strange stories about the task force from the executive branch."

Ramseur said the commission's subcommittees include people with ``pretty blatant conflicts of interest," a former state employee with a grudge about being fired and a relative of a property owner who's in conflict with state regulators about hazardous waste cleanup.

``Knowles' philosophy always has been (that) there may be some functions of government that may be better performed by the private sector," Ramseur said, mentioning engineering services as a possibility. ``But what we're hearing is that the whole process may be questionable."

Michele Brown, commissioner of the Department of Environmental Conservation, said an obvious red flag comes with the commission's subcommittee chairman for her department: Virgil Norton, former site manager for a Kenai area RV park that is owned by his father-in-law and has a hazardous waste site left over from a previous dry cleaning operation. The state and the company have been in dispute about the cleanup, and the company has ongoing litigation against the state, she said.

``So far, there's really nothing in particular that's come out in the committee related to that," Brown said. ``(But) it's something you naturally think about when you have a chairman with strong feelings in one direction or another."

Norton said he no longer works for his father-in-law and is not involved in the litigation against the state.

``I'm really reaching out to be very objective," he said from Nikiski. ``Several sections of DEC have been very responsive."

It's possible that the subcommittee's report won't recommend the privatization of any state function, Norton said. One of the most frequently heard suggestions is to combine the agency's laboratory with the Anchorage municipal laboratory, he said.

Ward and Cowdery said they have not been worried about conflict of interest, as they view the 300 volunteers who serve on the subcommittees as civic-minded citizens seeking a leaner, more responsive state government. Cowdery said the commission simply hasn't been willing to turn away volunteers.

Subcommittee members seemed surprised that the governor's office has raised questions about procedure.

Greg Pease, executive director of Gastineau Human Services Corp. in Juneau, said he doesn't think the Knowles administration's concerns make much sense, especially given the existing privatization of halfway houses.

``It's all competitively bid," Pease said. ``I don't know how anybody could say we're going to profit from it. . . .

``Everybody, including myself, knows we should move very cautiously."

Sam Kito III, who serves on the transportation subcommittee, acknowledged a former DOT employee who's on the subcommittee did distribute an old internal audit of the agency.

But Kito downplayed the importance of the document and said subcommittee members actually have been pleased with the department's cooperation.

``I believe it's going very well, actually," Kito said. There have been some moments, but you work through them."

There are no preconceived notions about privatization on the commerce and economic development subcommittee, said chairman Craig Johnson, general manager of the Alaska Journal of Commerce.

But Johnson, former chief of staff for Ward, said that after certain essential government services are eliminated - for example, the Alaska State Troopers - ``the sky's the limit" on what might be turned over to the private sector.

Johnson predicted that Knowles would oppose privatization except when the merits are so obvious that there's ``no way out."

``This particular administration's power base rests with state employees," Johnson said. ``This administration has grown government.

He added: ``This (commission) is not a lynch mob. There are many, many state employees who are underpaid, who do yeoman's work. . . . We can save some money, and we can also give back some of the confidence in government that I think is missing right now."

The Commission on Privatization is due to release its report to the Legislature by Jan. 1.

Back to business spotlight headlines

LEGAL SERVICES

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

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

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

MEMORANDUM September 7, 1999

SUBJECT: Application of conflicts of interest provisions (CCS SB 33)

TO: Representative John Cowdery
Attn: Marco Pignalberi

FROM: Tamara Brandt Cook
Director
TBC

You have asked how conflicts of interest provisions might apply to members of an advisory council appointed under CCS SB 33. That act establishes the Commission on Privatization in the legislative branch and authorizes the Commission to appoint an advisory council. These members "are not eligible for compensation, per diem, or payment of travel or other expenses by the state." (Ch. 61, SLA 1999 (CCS SB 33), Sec. 3(b))

AS 24.60 (Standards of Conduct) generally applies to the legislative branch of government and it contains several provisions that address conflicts of interest issues. (AS 24.60.030, AS 24.60.040, AS 24.60.050, AS 24.60.070, AS 24.60.080, AS 24.60.085, AS 24.60.090, AS 24.60.100) All these conflicts of interest provisions apply to a legislator or legislative employee. (AS 24.60.020) The term "legislative employee" is defined in AS 24.60.990(10). Because compensation is required as part of the definition and the advisory council members appointed under CCS SB 33 are not compensated, in my opinion the majority of the conflicts of interest provisions do not apply to these members. A few of the conflicts of interest provisions do apply to another person who is acting on behalf of a legislator or legislative employee (see AS 24.60.030(d) for example), and a few apply to a member of the immediate family of a legislator or legislative employee (see AS 24.60 040 for example). However, serving on an advisory council alone will not bring a person within the coverage of even these provisions.

In conclusion it is my opinion that the conflicts of interest provisions of AS 24.60 do not apply to members of an advisory committee appointed under CCS SB 33, but be aware that the Select Committee on Legislative Ethics has authority to construe and apply AS 24.60 and that my opinion will not bind or influence the Select Committee. Advice can be requested directly from the Select Committee. (AS 24.60.158, AS 24.60.160)

TBC:pl
99-125.plm

TONY KNOWLES
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
ANCHORAGE

October 26, 1999

Representative John Cowdery
Senator Jerry Ward
Co-Chairmen
Commission on Privatization and Delivery of Government Services
716 W. 4th Avenue
Anchorage, AK 99501

Dear Representative Cowdery and Senator Ward:

Your staff has asked for a letter to address the policy of this administration towards individuals participating in subcommittees of the Commission on Privatization and Delivery of Government Services.

Let me state clearly that it is currently, and always has been, the policy of this administration to work with the Commission as forthrightly as possible. There has never been, and there never will be, any attempt to stifle or in any way inhibit the participation of any private citizens in any Commission-related activity. This includes state employees or individuals involved in commercial relationships with the state.

I would be happy to discuss the administration's position on this matter with anyone if further clarification is necessary.

Sincerely,

Mike Abbott
Special Assistant to the Governor

TONY KNOWLES
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
ANCHORAGE

October 20, 1999

Representative John Cowdery
Senator Jerry Ward
Co-Chairmen
Commission on Privatization and Delivery of Government Services
716 W. 4th Avenue
Anchorage, AK 99501

Dear Representative Cowdery and Senator Ward:

We have received your letter of October 8. Governor Knowles asked that I respond as he has designated me to coordinate the administration's participation in the Commission on Privatization and Delivery of Government Services.

Upon signing the legislation into law, Governor Knowles directed executive branch departments to work constructively with the Commission and to the best my knowledge, that has happened. Officials of the Administration have spent hundreds of hours working with the Commission and its subcommittees as the Commission attempts to fulfill the mission set out in SB 33.

Despite the lack of funding provided by the Legislature for this purpose, every state agency has made senior staff, and in many cases, commissioners themselves, available to the subcommittees. All requests for information consistent with confidentiality rules have been provided, which amounts to thousands of pages. I fully expect the agencies to remain engaged in the Commission's work throughout the remainder of its service.

Your letter contained several points I need to clarify:

- A number of participants in the Commission's subcommittees have potential conflicts of interest that the public should know about. We do not challenge anyone's opportunity to participate. We do believe that disclosure of any current or previous associations that might effect a subcommittee member's decisions is important information for the public.

- Your letter referenced a "Ms. Andree McLeod," as a "former employee with a grudge." But no administration official I am aware of has ever identified her as such.

- The administration has not engaged in any "public relations juggernaut" about the Commission. Deputy Chief of Staff David Ramseur was contacted by a reporter with questions about the Commission and he answered those questions.

Feel free to contact me if I can answer other questions on this subject.

Sincerely,

Mike Abbott
Special Assistant to the Governor

X-Mozilla-Status: 0001
X-Mozilla-Status2: 00000000
Message-ID: <3802492F.45991171@legis.state.ak.us>
Date: Mon, 11 Oct 1999 12:31:43 -0800
From: Marco Pignalberi <Marco_Pignalberi@legis.state.ak.us>
Organization: Alaska State Legislature
X-Mailer: Mozilla 4.5 [en] (Win95; I)
X-Accept-Language: en
MIME-Version: 1.0
To: Ethics Committee <Ethics_Committee@legis.state.ak.us>
Subject: **Advisory Opinion Request**
Content-Type: text/plain; charset=us-ascii
Content-Transfer-Encoding: 7bit

Suzy:
SB 33 establishes the Commission on Privatization and Delivery of Government Services. Section 2 (b) authorizes the Commission to appoint an Advisory Council. The Commission has done so and recruited approximately 300 volunteers who are working on 17 subcommittees. Please refer to Section 2 (b) of SB 33, linked here,
http://www.legis.state.ak.us/PDF/21/sb0033F.PDF

These volunteers are neither paid nor eligible for reimbursement of expenses, travel or per diem. They have the same incidental access to LIO resources as do all citizens.

The charge has been made that the Advisory Council volunteers, who serve without compensation of any kind, have conflicts of interest. These conflicts are alleged toderive because the volunteers might be making recommendations to the Commission about privatizing activities in certain departments. Presumably, a volunteer could make a recommendation that would be of personal benefit. For example, a volunteer who owns an auto mechanic shop may vote to recommend that vehicle maintenance be contracted out to the private sector. These recommendations will be strictly advisory and subject to public review by the full Commission, both houses of the legislature and the governor. They would also have to comply with the state's procurment process. Neither the Advisory Council members nor the Commission have any actionable decision making authority. Their purpose is to advise the legislature and the governor.

Under separate cover, I provided a legal opinion from Legislative Legal Services. Rep. Cowdery also asked the governor for an Attorney General 's opinion. We are covering all bases and wish to have an Advisory Opinion on the question:

"Do public members who volunteer on a legislative advisory council fall under the requirements of the ethics code, including he conflict of interest requirements?"

Because there are so many volunteers involved, we would like to have this issue resolved promptly. As always your assistance is appreciated. Please call on me if you need additional information.

Regards,
Marco P.

Return-Path: <Ethics_Committee@legis.state.ak.us>
Received: from anc-proxy.legis.state.ak.us (anc-proxy.legis.state.ak.us [146.63.193.129]) by jnu-unix.legis.state.ak.us (8.9.1/8.9.1) with ESMTP id KAA17399 for <Marco_Pignalberi@legis.state.ak.us>; Wed, 6 Oct 1999 10:07:00 -0800
Received: from legis.state.ak.us (lethskb.dyn.legis.state.ak.us [146.63.193.243]) by anc-proxy.legis.state.ak.us (8.8.5/8.7.3) with ESMTP id KAA09510 for <Marco_Pignalberi@legis.state.ak.us>; Wed, 6 Oct 1999 10:06:58 -0800
Message-ID: <37FB8F9D.C1FBAEA8@legis.state.ak.us>
Date: Wed, 06 Oct 1999 10:06:21 -0800
From: Ethics Committee <Ethics_Committee@legis.state.ak.us>
X-Mailer: Mozilla 4.61 [en] (Win95; U)
X-Accept-Language: en
MIME-Version: 1.0
To: Marco Pignalberi <Marco_Pignalberi@legis.state.ak.us>
Subject: **Advisory Opinion**
Content-Type: text/plain; charset=us-ascii
Content-Transfer-Encoding: 7bit

Marco, if you choose to request a formal advisory opinion, could I ask you to waive the confidentiality provision? The committee will be meeting on 2 other advisory opinions via teleconference, confidentiality has been waived on both of those. Waiving allows you to join in the discussion, which proves helpful to the committee in gathering information.

It would also be helpful if you could ask the question in this manner: Do public members who volunteer on a legislative advisory counsel fall under the requirements of the ethics code, including the conflict of interest requirements. That will allow us to address both the "legislative employee" issue that Tam addressed and the "volunteer" issue that I addressed.

Further, the more facts, the easier it will be for me! Could you include the information that they are not eligible for compensation, per diem or payment for travel or other expenses. Also, please include information such as; they do not occupy legislative office space, do not have more than incidental access to use of state resources, etc. Finally, could you clarify that they serve in an advisory capacity only, and while advising on policy and potential legislation, they are not empowered to do more than make recommendations. I made assumptions, please ignore any false assumptions and include the correct information.

Sooner is better! Also, please let me know if you choose not to file the request. At this point, the committee will meet sometime on Oct. 26,27,28. I will let you know once I get them settled on one date and time. (you know how that goes)

Thanks

Susie

P. 01

TRANSACTION REPORT

OCT-08-1999 FRI 05:00 PM

BROADCAST

DATE	START	RECEIVER	TX TIME	PAGES	TYPE	NOTE	M#	DP
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	04:57 PM	92697461	2'58"	8	SEND	OK	387	
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ON PRIVATIZATION and Delivery of Government Services

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October 8, 1999

Honorable Tony Knowles
Governor of Alaska
State Capitol Building
Juneau, Alaska 99801

Re: Privatization Commission

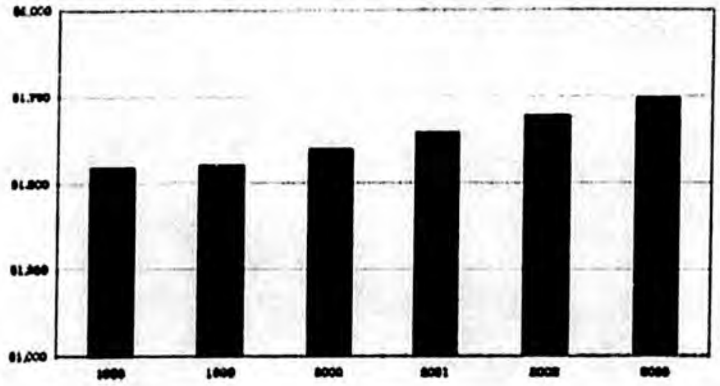
Dear Governor Knowles:

The attached September 28, 1999 article in the Juneau Empire is troubling because we believe it is true. It said:

> *"The issue of privatizing some state government operations is already tinged with politics...."*

> *"The Knowles Administration is characterizing the commission as blind to ethical conflicts of interest...an apparent pre-emptive strike by the governor on the group's forthcoming report to the Legislature."*

Average Out the Dividend Growth



Although not required by law or the constitution, I have always insisted that any changes to the Permanent Fund must be approved by Alaska's voters. So I request the Legislature authorize an advisory vote on this one-time transfer in a special statewide election early this year.

Even with the sustainable earnings from a larger Budget Reserve, Alaska would continue to face a deficit of about $350 million. So the second part of this plan addresses the need to raise those additional revenues. There are limited options that are both fair and efficient.

States raise most of their revenues from sources that grow with population and state economy, either through an income tax, a sales tax or a combination of both. Alaska is the only state with neither.

I believe the fairest, most progressive way to raise the $350 million of additional revenue we need, is an Alaska Credit Income Tax. Some of it will come from non-Alaskans who work in our state but pay nothing for the benefits they receive.

According to Alaska's Labor Department, 10 percent of Alaska's wages, or about

$800 million, is earned by non-residents. We can structure the income tax so an average Alaskan family of four making up to $60,000 a year - the median Alaska income - would pay nothing. It would credit residents for federal taxes we pay on our Permanent Fund dividend and recognize other costs of living in Alaska.

I do not favor additional business taxes because Alaska's resource-based industries are already suffering from low world prices for timber, fish oil and other minerals. The Asian economic downturn has slowed our exports. This is not the time to shake the confidence of business investment, employment and operations in Alaska.

In proposing an Alaska Balanced Budget Plan as I do tonight, [redacted] There is no one correct plan, nor is there any single solution that will be acceptable to every Alaskan.

Indeed, there will be many other proposals. But any acceptable proposal must meet the goals I believe most Alaskans agree are essential:

- It must balance the budget on a sustainable basis;
- Protect and grow our savings accounts;
- Provide a substantial and growing dividend;
- And in a fair and balanced way, raise the additional revenues we need for vital public services from both Alaskans and non-Alaskans.

Making the decisions to arrive at the plan I outline tonight was not easy. In fact, I - along with every other elected official in this room - could probably escape any political pain during our current terms by doing nothing. [redacted] Failure to act today means liquidating Alaskans' assets tomorrow.

Forty years of Statehood have taught us the task before us isn't easy, but it never has been for Alaskans. Our challenge is to muster the same courage and foresight that inspired Alaskans of an earlier era. To fulfill our responsibility to generations of Alaskans - today and tomorrow. To share in the bounty provided each of us by the Great Land. As we take stock of Alaska at the beginning of a new century, Alaskans have ample reason for optimism about the unprecedented opportunities before us.

[redacted].

Thank you.

GOVERNOR KNOWLES' 1999 STATE OF THE STATE ADDRESS

Jan. 20, 1999
(Note: This is not an exact transcript and is subject to change.)

Lt. Governor Fran Ulmer, Senate President Drue Pearce, House Speaker Brian Porter, members of the 21st Alaska Legislature, my cabinet, my wife Susan, two of my children - Luke and Sara - and fellow Alaskans. Good evening.

Tonight marks my fifth appearance before you in this forum, and the first in my second term as your governor. To Alaskans across our state, thank you for giving me the honor to serve you another four years. To those in these chambers, I note we share the unique privilege of serving as Alaska's last elected leaders of the 20th century - and the first of the 21st. So I offer my congratulations on your election, and pledge my bipartisan cooperation to build a better Alaska.

1999 is an important year to all Alaskans, as we celebrate 40 years of statehood. We honor those who generously assumed the responsibility and contributed their service in building a modern state that's the envy of the nation.

No one better exemplifies the Statehood era than the team of Bill and Neva Egan. Beginning together in Valdez - he a merchant, she a teacher - the Egans successfully led the Statehood battle to the highest levels of our nation's capital. Then as Alaska's first governor and first lady, they helped build the foundation for the Alaska we love today. Neva still blesses us with her inspiration, her good humor and occasionally, her beautiful singing voice. We're honored tonight to be joined by Alaska's first, first lady, so please help me recognize Neva Egan.

The best way we can show our gratitude to Neva Egan and the many other architects of statehood, is to fulfill our responsibility: to build a better Alaska based on the values we share with the pioneers who preceded us. A strong belief in work; a love of independence; a reverence for our cultural diversity; a cherished sense of family, village, community and state. Keeping these values alive for future generations requires us to make further progress on the three priorities we all embrace: good jobs and a growing economy; better schools; and safe, healthy children.

Yet, continued progress for Alaska families is jeopardized by a single factor beyond our control - the dramatic drop in the world price of oil, which largely fuels our economy and funds vital public services. This has created an increase in our budget gap to $1 billion.

Today, the state of our state is the state of our budget. That's why I'm breaking with tradition and combining the two speeches normally made by Alaska's governor the opening week of the legislative session.

As elected leaders, our biggest immediate challenge is dealing with the lowest oil prices since North Slope production began a generation ago.

The consequences of failing to act quickly and responsibly, in the small window open to us this session, are severe. Without action, we will deplete our savings account, place heavy burdens on local taxpayers, abandon our commitment to secondary and university education excellence, threaten public safety, transportation and economic development. We don't want to suffer a repeat of the deep recession Alaska's economy experienced a decade ago. There's no greater threat to Alaskan jobs and families than ignoring our responsibility to resolve today's $1 billion budget gap.

So tonight I'll outline a comprehensive, yet admittedly politically risky proposal, to keep Alaska's economy healthy for many years to come.

Before detailing that proposal, I want to report on the state of our state and this year's budget.

On our top priority - good jobs and a healthy growing economy - Alaska is doing well, despite low oil prices. Thanks to the innovative skills of Alaskans and a pro-business environment, the number of Alaskans working is at an all-time high. More than 273,000 Alaskans earned a record $9 billion in 1998. In just the past four years, 14,000 new jobs have been created and last year's unemployment rate set an all-time record low.

We're making astonishing progress in moving Alaskans from welfare to work. With our new welfare reform law and investments in child care and worker training, fewer Alaskans are on welfare today than in the past eight years - 33 percent below the 1994 peak. This will save Alaskans $37 million in welfare payments next year alone.

Thanks to our open and ready for business partnership and entrepreneurial risk-taking by a growing number of companies, Alaska's North Slope and Cook Inlet are prime targets for oil development. Despite low oil prices, our industry remains committed to its investments in Alaska's new and existing oil and gas fields. Because we've insisted on Alaska hire, this development is being accomplished in Alaska, by a growing number of skilled Alaskan workers.

In this, the 10th year since the Exxon Valdez oil spill, the state, industry and concerned Alaskans are taking responsibility to assure development of the world's safest oil transportation system. In just two weeks, the first of five of the most technologically advanced tractor tugs will be christened in Bill and Neva Egan's hometown of Valdez. These tugs join an oil transportation system from the Beaufort Sea to Prince William Sound that has the most oil spill prevention and response equipment and personnel anywhere in the world. We remain vigilant because we know the price of complacency.

Our North Slope is also home to one of the nation's best new oil prospects - the Indiana-sized National Petroleum Reserve. The federal government has scheduled leasing there as early as April. Exploration in the NPRA will show the nation we Alaskans do development right - by hiring Alaskans, using Alaska businesses and protecting our water, air, wildlife and habitat.

Thanks in part to legislation we passed together last session, Alaska's vast North Slope natural gas resources are under serious evaluation by an international partnership led by Arco. This team has pledged up to $100 million to try to make the long-awaited Alaska natural gas project commercially viable.

With the worth of our mining industry at nearly $1.2 billion, Alaska is enjoying a world-class mining boom. Our mining industry's value has tripled in the past 10 years, accounting for about 3,800 direct Alaska jobs, from Red Dog near Kotzebue to the Interior's Fort Knox to Greens Creek in Southeast.

This past year also saw Alaska's tourism industry join the billion-dollar club. The record 1.4 million visitors to our state helped make tourism Alaska's second largest private sector employer.

Our fishing industry suffered downturns in many regions last year, but none harder hit than Bristol Bay and the Yukon and Kuskokwim Rivers. Many Alaskans deserve thanks for coming together quickly to deal with this crisis, as we work to better understand our ocean and freshwater fisheries to prevent a future crisis. Alaska's fishing industry is moving forward on quality, value-added processing and marketing. We will succeed on the competitive world market as we stand with Alaska's fishing families.

Timber, another major natural resource industry, is restructuring following troubled times. We have held nearly 100 state timber sales for value-added manufacturing and for the first time, Alaska Railroad ties are being manufactured by an Alaskan-owned and operated sawmill in Southeast.

Alaskans are at the cutting edge of other rapidly growing industries - transportation, telecommunications, finance and health care.

Along with favorable economic trends, Alaska's savings accounts are more flush than ever. Thanks to a booming stock market and additional deposits by the Legislature and my administration, the market value of our Permanent Fund totals $25 billion , generating record high dividends. Our other major savings account - the Constitutional Budget Reserve - totals $3 billion, providing a cushion against the changing price of oil. Three other state assets - Alaska's Housing Finance Corporation, Industrial Development and Export Authority and Science and Technology Foundation - all will continue to pay dividends, if we protect and grow their assets.

In addition to creating a pro-business environment, one of the most important steps to grow the economy is to improve and expand Alaska's transportation. In the last four years, we have made significant progress. We are revamping our antiquated 40-year-old National Highway System - including the Seward, Glenn, Parks, Dalton and Alcan highways - to new 21st century standards of safety, efficiency and access.

We launched a 10-year, $350 million overhaul of Anchorage International Airport and the transportation links which serve it. Next summer, with the new Whittier road, we'll open the new gateway to one of Alaska's most spectacular playgrounds in Prince William Sound. We've invested $300 million into 261 rural airports, and brought on line our first new ferry in 21 years. And we've opened up Alaska with 64 new trails and recreation projects.

I propose we continue this progress with a new generation of transportation systems. Together, this would comprise

Alaska's largest construction and jobs-producing project since the pipeline a generation ago. All this is possible because national changes in the way America funds transportation mean Alaska could receive twice the amount of federal money we normally get - up to $3 billion. Over the next five years, we could invest more than $600 million a year to bring our highways, roads, airports, ports, harbors, railroad and trails, up to new high standards. Like all opportunities, this one comes with strings – the very reasonable requirement of state matching dollars.

Recognizing the budget gap, I urge your prompt action on a proposal before you to raise the $26 million a year required to match the new federal funds. It asks the users of Alaska's highways to contribute about a 9-cent a gallon increase in Alaska's fuel tax. Alaska's fuel tax – the nation's lowest - hasn't changed since 1961. Yet even with a 9-cent increase, 45 states still will have higher gas taxes than Alaska. There are few smarter investments in Alaska's economic good health than rebuilding our transportation system.

As the clock ticks down on the 20th century, we face a deadline to guarantee Alaska management of our fish and game resources. The rural subsistence priority is morally right, historically smart and benefits every Alaskan. Thanks to the support of the Alaska Federation of Natives, business leaders, commercial and sport fishing groups, community and state leaders and our congressional delegation, we almost reached a resolution last year.

Three times in 1998, the will of the majority of Alaskans - and the majority of the Legislature - was thwarted by the refusal of a small minority to allow Alaskans the opportunity to vote on subsistence.

Any solution must ensure state - not federal management - of our fish and wildlife resources, and it must protect the fundamental role of subsistence in the cultures and economy of rural Alaska.

We Alaskans must take the responsibility to solve this uniquely Alaskan problem in Alaska this session. The future of rural Alaska, home to many of our first people, deserves the attention of all Alaskans. That's why I appointed a statewide Commission on Rural Governance, which later this year will offer recommendations on ways to bring all Alaskans together.

To strengthen the bonds of our unity and sharpen the understanding of our common goals, I have called for Alaskans to convene in a Convention on Alaska's future, as we face a new millennium. I look forward to our participation in this statewide discussion.

Any discussion of the next millennium is incomplete without mentioning the Y2K computer problem, which presents a costly challenge to a wide variety of public and private sector operations. We are requesting less than $20 million for Y2K, far less than many envisioned and substantially less than other states. If the Legislature acts in a timely way on our funding request, we will be on track to protect the 89 mission-critical systems affecting life, health, safety and economic well being.

As we work to keep our economy healthy, there's no more important job than continuing to improve Alaska's schools. A solid education is the ticket to a lifetime of success. Working together last year, we agreed to put 27 million more dollars into schools this year and next, and mandated new high standards and testing for students and accountability for schools.

Every Alaskan family has a stake in fulfilling the promises we made last year to improve our schools. Keeping Alaska competitive in the 21st century requires both good public schools and a strong University of Alaska. Regrettably, state support for the university has been inadequate.

Last year, we began turning the corner, with invigorating university leadership and renewed public support. I propose we continue this progress with a new university endowment for excellence. Our congressional delegation has looked to the federal government to fulfill its land grant obligations to the University of Alaska. But this has stalemated and caused disputes among Alaskans. So, I am urging our congressional delegation to pass legislation to help meet the federal government's land grant obligations by earmarking a portion of the federal revenues from development in the National Petroleum Reserve-Alaska for this university endowment.

For every young Alaskan to realize their full God-given potential, we must continue our investment in Alaska's children. I commend the Legislature for implementing, in part, the "Smart Start" program last year - a historic new investment in better protecting Alaska's children. It includes new troopers and child protection workers, better health care for the children of working Alaska families, improved foster care and adoption, quality child care and strengthening families at risk.

In keeping with my principle of no new programs without a source to fund them, we worked with our congressional delegation to change the federal Medicaid formula, providing Alaska an additional $32 million for these Smart Start investments. By investing now in zero tolerance for the abuse and neglect of Alaska's children, we will save millions later in the avoided cost of new juvenile detention facilities, jails and welfare payments.

We must continue the down payment we made last year in providing adequate resources for foster care, permanent adoptions, day care, additional child protection workers, children's health and anti-tobacco programs. I propose they be funded with the $22 million a year for the next 25 years from Alaska's share of the national tobacco settlement. The well-being of Alaska's children should not fluctuate with the price of oil.

We must continue to remain vigilant in combating crime. Thanks in part to investments in crime prevention, new technologies and new laws, Alaska's violent crime rate dropped 15 percent between 1995 and '97. We must fulfill our commitment to fighting crime with troopers, Village Public Safety Officers, youth detention centers and the additional prisons we approved last year.

For the coming year, our general fund budget totals $2.3 billion. It was developed based on four goals.

First, it keeps Alaska's economy healthy and growing.

Second, it continues the initiatives we passed together last year for quality schools and better protecting Alaska's children.

Third, recognizing the budget gap, it initiates no new program without a source to fund them. That's why we have identified funding sources to continue progress in transportation and Smart Start.

Fourth, it continues reducing costs and delivering public services more cost-effectively. For example, my year 2000 budget continues to reduce general fund spending - by $13.5 million - while absorbing $27 million more for public schools and the university, $15 million more in prisons and public safety and millions in inflation costs.

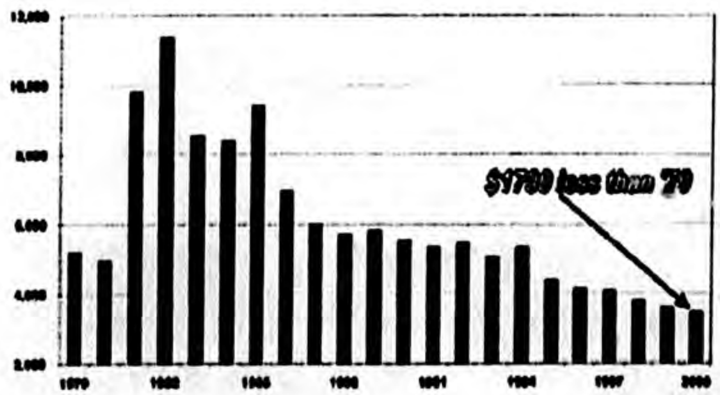
In addition, I am directing state departments to develop recommendations for reducing spending, to be achieved through budget cuts, increased efficiencies, consolidations and better use of technology.

Last year, the Legislature agreed to major improvements in education and children's programs, yet funded them for only part of a year. That's why the additional $5 million in children's health, the $16 million in education and more than a million for troopers and child protection workers, among others, may appear as increases. In fact, this is not an expansion, but just full year funding for commitments made to Alaskans last year. Just as any family or business faced with a sudden drop in income reduces their expenses, so should government.

Over the past four years, we've done precisely that. We've worked together to provide vital public services, agreed to new initiatives in education and child protection while reducing spending. The results of this bipartisan cooperation are good for Alaskans. We have a growing economy, better schools, healthier and safer children, and we've cut the budget.

In fact, since Budget Year 1995, state spending has been cut nearly a quarter of a billion dollars. As Illustration 1 shows, state general fund spending per Alaskan in today's dollars is nearly $1700 less than in 1979.

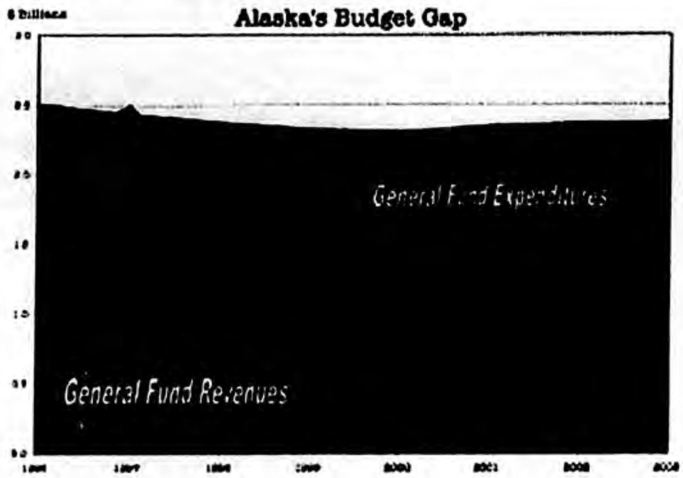
General Fund Spending Per Alaskan
In Today's Dollars



According to the National Governors' Association, Alaska is the only state in the nation to have cut its budget over the past four years. At the same time, all other states - including 35 with Republican governors - increased their budgets a combined 22 percent. That makes Alaska number one in budget cuts. We've done this even though Alaska has one of the nation's fastest growing populations of children and seniors, both of whom require the most expensive public services.

With clearly defined goals, a strong economy and substantial, growing savings accounts, Alaskans are deservedly optimistic about the future. Unequaled opportunity continues to define the Great Land. But with that opportunity comes responsibility, as we meet the challenges ahead. Simply put, we face a gap now of nearly $1 billion between the money coming in to the treasury and what's needed to provide Alaska families and communities with needed services and benefits.

You can see the size of this gap on Illustration 2 - what is paid for public services compared to the amount of our revenues. Unattended, this budget gap threatens our jobs, businesses and families.



The fact is we have the wealth and resources to fix the problem of stabilizing our fiscal future. The question is: do we have the wisdom and will to make the savings and investment necessary to achieve a sustainable balanced budget? Or will we continue to borrow from the future?

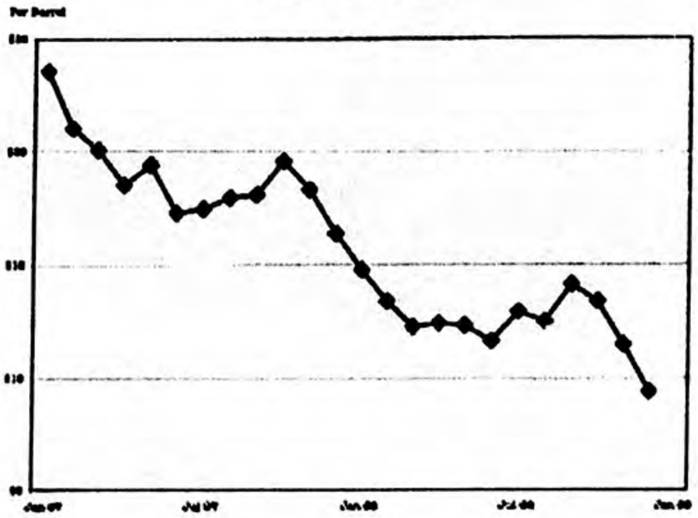
For the last 20 years, Alaska has enjoyed unique prosperity, fueled primarily by our bountiful supply of oil and its generally high price. Wisely assuming this would not last forever, Alaskans years ago prepared for the transition from a budget based on a single source to one that is more diversified.

Indeed, many wise and responsible steps have been taken. For instance, Alaska's General Obligation Bond indebtedness was designed to stop next year because that's when early predictions estimated the end of the Prudhoe Bay field. Alaskans established the Permanent Fund to transfer one time non-renewable resource revenues into a permanent source of earnings and benefits for future Alaskans. The Constitutional Budget Reserve was established in 1990 to protect the budget and economy against oil price fluctuations.

Alaskans, although knowing the day of reckoning would come, have been able to avoid the difficult decisions of revenue restructuring for a decade, thanks to two factors. One, good fortune in the form of high oil prices. And two, the success of good policy decisions to partner with industry and create a favorable business climate. Coupled with additional industry investments and new technology, this has boosted Alaska's oil production far beyond early predictions.

Now, with falling prices and production, we can no longer postpone the difficult decisions. As you can see in Illustration 3, today's oil prices - the lowest since North Slope oil production began - give us no choice. If low oil prices continue as projected, Alaska's $3 billion Constitutional Budget Reserve will run dry in four years. And although my budget proposal for the coming year includes additional reductions and cost-efficiencies, Alaska simply can't cut its way to a balanced budget.

Oil Price Decline



In fact, if we lay off every single state-funded worker, we would still have a $300 million gap. And on top of that, if we wiped out state aid to communities and stopped building roads, schools and safe water systems, we'd still have a 100 million budget gap. Likewise, no other single fix, including higher oil prices, can fill the gap.

Today, we Alaskans face no less a challenge than the framers of our state constitution two generations ago. Failure to act would be irresponsible. We should not – we cannot - bankrupt our children's future.

So tonight I propose a plan to balance our budget – today and well into the next century. Alaska's Balanced Budget Plan borrows the best elements of proposals developed in recent years by Alaska business groups like Commonwealth North, and state leaders, like Gov. Jay Hammond, and former Permanent Fund Executive Director Dave Rose, and legislators, including many in this room.

It is based on three principles that I believe most Alaskans agree are essential to any acceptable long-term budget plan:

- One, it balances the budget on a sustainable basis.
- Two, it protects and grows our savings accounts – the Permanent Fund and the Constitutional Budget Reserve.
- Three, it requires that any changes to the Permanent Fund and dividends occur only with a vote of Alaskans.

The plan accomplishes four goals:

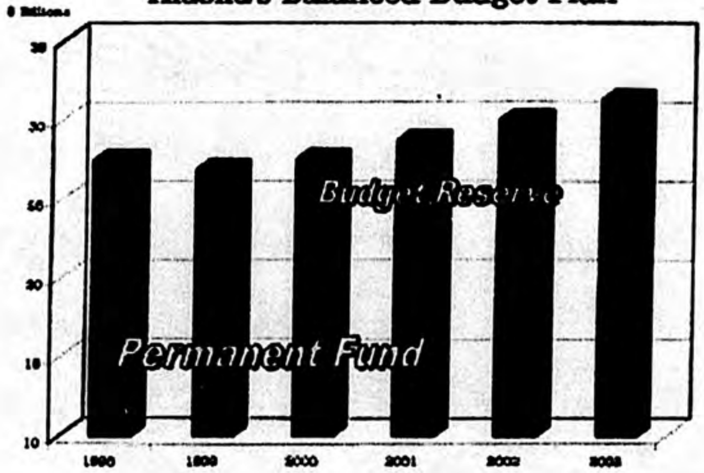
First, it balances the budget within 18 months - our Fiscal Year 2001.

Second, it creates a sustainable balanced budget that lasts as far into the future as one can reasonably predict.

Third, it protects and grows the state's savings accounts, the Permanent Fund and the Budget Reserve.

As Illustration 4 shows, under this plan, the combined value of our two major savings accounts - the Permanent Fund and Constitutional Budget Reserve - would total $31.2 billion.

Savings Accounts Under Alaska's Balanced Budget Plan



Fourth, this plan maintains a sizeable Permanent Fund dividend that provides for future growth.

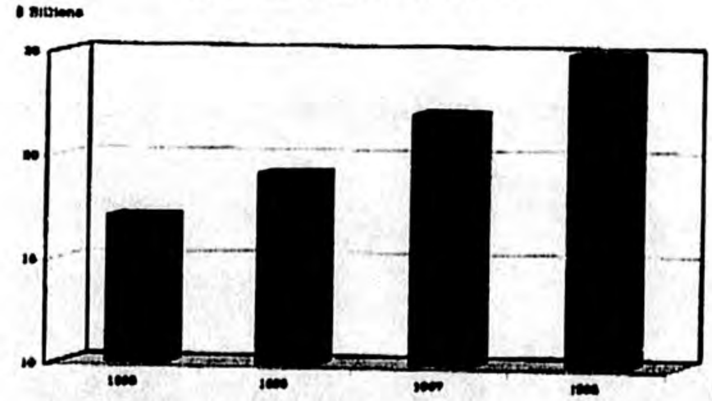
To accomplish this, two actions are necessary.

> First, we would make a one-time appropriation of $4 billion from unrealized stock market gains of the Permanent Fund to the Budget Reserve. This transfer would be made only upon approval of a majority of Alaskans voting in a special election early this year.
>
> Second, we need another $350 million per year to balance the budget. I believe the fairest way to raise this is through an Alaska Credit Income Tax.

Let me discuss these two steps which constitute the core of the proposal.

> First, the transfer of surplus Permanent Fund earnings. Today, much of the Permanent Fund's enormous stock market profits in recent years exist only on paper. As you can see in Illustration 5, the market value of Alaska's Permanent Fund has soared nearly 50 percent in just the past four years, from $17 billion in 1995 to $25 billion today. Yet, this growth will exist in the bank only when the trustees and fund managers sell the stock.

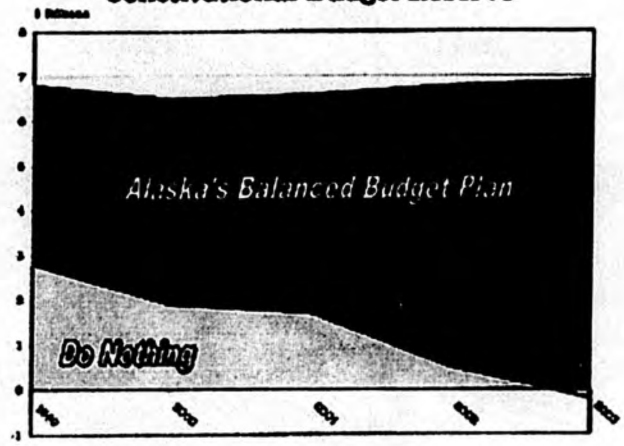
Permanent Fund Market Value



Just as other investors have taken their profits from the booming stock market, so can Alaska. I propose we capture the gains from our stock investments and transfer $4 billion to the Constitutional Budget Reserve. With that amount, we would increase the earnings of our Budget Reserve by about $550 million a year on sustainable basis.

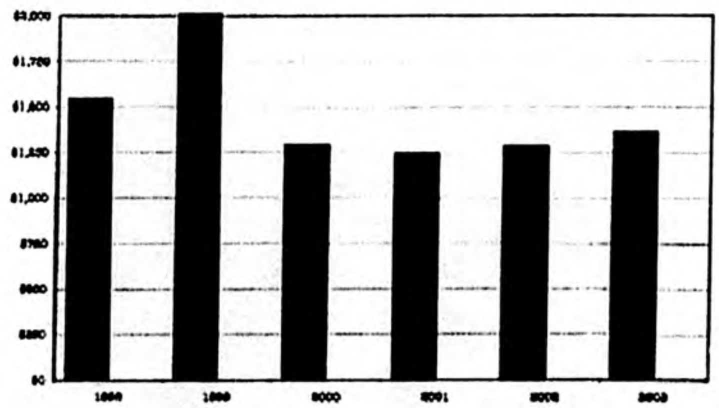
As you can see in Illustration 6, a $4 billion transfer would put the Budget Reserve on a sustainable footing. It then does what Alaskan voters intended when we created the Permanent Fund in 1976 - help Alaskans meet their needs when oil revenues began running out.

Constitutional Budget Reserve



The effects of this transfer on dividends would be two-fold. First, as you can see on Illustration 7, the income from the stock sale would increase the 1999 dividend to approximately $2,100 per person.

Permanent Fund Dividends With Alaska's Balanced Budget Plan



In the year 2000, it would be about $1,300 and continue growing as the Permanent Fund and its earnings increased. Averaged over a five-year period, the dividend would be about $1,550 per person with continued future growth, as shown in Illustration 8.

Tony Knowles
Governor
P.O. Box 110001
Juneau, Alaska
99811-0001
NEWS RELEASE

State of Alaska
Office of the Governor

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Deputy Press
Secretary

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FOR IMMEDIATE RELEASE: Tuesday, October 19 99-209

KNOWLES APPOINTS INTERIOR RESIDENTS TO STATE BOARDS AND COMMISSIONS

Appointments Highlight Importance of Interior in State Decision-Making
Gov. Tony Knowles today recognized 20 Interior residents who have been appointed or reappointed in recent months to serve on the state's many various boards and commissions. "Citizen participation is the key to good government, at all levels. Through appointments to boards and commissions, citizens can become more effectively involved in the state's decision-making process," Knowles said. "It is a pleasure to again recognize and thank the many dedicated and qualified Interior residents who give of their valuable time to serve in these important volunteer posts."

While some state boards and commissions are purely advisory, others are directly involved in making significant regulations and setting policy. In addition, some board appointments are subject to confirmation by the Legislature, financial disclosure, or both.

Recent Interior appointments include:

Dick Brickley–With over 25 years of management experience, including a hitch as commander at Fort Wainwright and former instructor of management classes at the University of Alaska Fairbanks, Dick Brickley was appointed to a "management" seat on the board of the Alaska Labor Relations Agency. For the past 10 years, Brickley has been the Human Resources Manager for the Golden Valley Electric Association. He will serve a 3-year term.

Jackie Bisbee–With her appointment to a 3-year term on the Governor's Committee on the Employment of People with Disabilities Board, Bisbee brings a wealth of experience and community dedication to the board. She is the project director for vocational rehabilitation at the Tanana Chiefs Conference, holding a degree in Human Services from the University of Alaska Fairbanks (UAF) and a degree in Paraprofessional Counseling from Tanana Valley Community College. Bisbee is also the vice-president of the Fairbanks Crises Line Board of Trustees and a member of the Fairbanks Resource Agency Respite Care Program Advisory Council.

Mary Ann Cerney was appointed to a dental hygienist seat on the Board of Dental Examiners, and will serve a 4-year term. This statewide board is responsible for licensing the dental profession in Alaska. Cerney has been a dental hygienist in Fairbanks since 1974, and has held leadership positions in both the Alaska State Dental Hygienists' Association and the local Midnight Sun Dental Hygiene Society, serving as its first president in 1976-77.

Peggy MacDonald Ferguson–With her appointment, Peggy MacDonald Ferguson brings an abundance of experience and a keen interest in the performing arts to her 3-year term on the Alaska State Council on the Arts. An Alaska resident since 1969, her credits include being the founding producer and director of The Looking Glass Group Theatre in Fairbanks and the Alaska Light Opera Theatre of Anchorage. Among her many accomplishments, Peggy has also been the Fairbanks manager of Alaska Repertory Theatre, the development director of Fairbanks Light Opera Theatre and the theatre division director of UAF Summer Fine Arts Camp.

Gayle Harbo–A resident of Alaska since 1957, with 25 years of experience teaching mathematics at Lathrop High School in Fairbanks, Harbo was appointed to a 3-year term on the Alaska Teachers' Retirement Board. This board prescribes policies, regulations, and other activities to administer the state's Teachers' Retirement System.

Larry Hintz–In his appointment to the Governor's Committee on the Employment of People with Disabilities, Hintz's expertise and experience will prove invaluable to this board's important work. Hintz, who holds a Masters of Education in Counseling and Guidance and has worked as a vocational rehabilitation counselor, will serve a 3-year term.

Kay Hoch–Appointed to the Alaska Human Resource Investment Council for a 4-year term, local businessman Kay Hoch brings years of experience and knowledge in employment and workforce training issues. As former chairman and 10-year member of the Fairbanks Private Industry Council, and former member of the Alaska Job Training Council, he will work to ensure Alaskans have the skills and opportunities necessary to earn a living wage; and that the workforce can meet the future business needs of the state.

Dorothy Jones–A long-time resident of Fairbanks and recent retiree of the University of Alaska Fairbanks, Dorothy Jones, was appointed to a 4-year term on the statewide Alaska Council on Emergency Medical Services for the Fourth Judicial District, which includes the Interior. Jones, who has been active in many community organizations, including the NAACP, assumes one of two "consumer" seats on the board, joining a group of professionals and citizens who give advice on the planning and implementation of emergency medical services system for the state.

Tracy Monroe–Tracy Monroe will serve on the Alaska Humanities Forum, and will help develop programs and policies to support and encourage public interest in the humanities. Born and raised in Nenana, Tracy Monroe holds a BA degree in Journalism, is currently employed as a program assistant for Doyon, Inc., and has worked as a rural development specialist for Tanana Chiefs Conference and as a public relations intern at Andrew Isaac Health Center.

Wendy Redman–Wendy Redman has lived in Fairbanks for many years, and has been an active community volunteer in civic organizations. She was appointed to a term on the Private Industry Council, a statewide board that helps develop employment and training programs. Redman, who assumes a seat slated for an education professional, is currently the vice president for university relations for the University of Alaska, and will serve until July 2000.

Carolee Nauyaq Walker–Born and raised in Shungak, Carolee Walker is a lifelong resident of Alaska and now lives in Fairbanks where she attended the University of Alaska. She has been appointed to serve a 3-year term on the Gates of the Arctic National Park Subsistence Resources Commission, an advisory body which helps formulate hunting regulations for subsistence users of this national park.

Mary Weymiller–Mary Weymiller, a licensed practical nurse with over 20 years or professional experience in Alaska, will serve a 4-year term on the Alaska State Board of Nursing. Weymiller will take part in regulating the licensing, permitting, and discipline of nurses practicing in Alaska.

Several other Interior residents were also reappointed to board seats:

Gaylin Fuller, the director of library media services for the Fairbanks North Star Borough School District and the former director of library services for Elisagavik College in Barrow and the Yupiit School District in Akiachak, will serve another 3-year term on the State Historical Records Advisory Board.

Robert Grove was tapped to fill another 2-year term on the Alaska Housing Finance Corporation board of directors. Grove is currently the operations manager of the University of Alaska Fairbanks Geophysical Institute, and has a long involvement with energy and housing issues, including service as the former director of Super Insulated Homes in Fairbanks.

Ruth L' Hommedieu, former legislative aide to Representative Tom Brice and member of the board of directors for Deaf Community Services in Fairbanks, was reappointed to the Governor's Committee on the Employment and Rehabilitation of People with Disabilities. She will represent the Statewide Independent Living Council, serving as liaison between the two boards.

William Jeffress, Chief of Environmental Services for AMAX Gold Mining, Inc. will serve another 3-year term on the Alaska Board of Forestry. Williams fills a seat on the board designated for the mining sector.

Ronald Johnson was reappointed to a public seat on the Air Quality Small Business Advisory Panel, a citizen review panel that helps review air quality regulations affecting small businesses. Johnson is the department head for mechanical engineering at the University of Alaska Fairbanks, where he has been a faculty member since 1986.

Sharon Johnson, a student at UAF in mechanical engineering and a graduate of Stanford University, was also reappointed to a public seat on the Air Quality Small

Business Advisory Panel. In addition to this panel, her civic service includes work as an English-as-a-second-language tutor for the Literacy Council of Alaska.

Timothy Sharp, who has over 20 years experience as a journeyman, freeman, shop steward, and business representative for labor unions, will serve another 4-year term in the designated labor seat on the Occupational Safety and Health Review Board.

Kes Woodward, chair of the art department at the University of Alaska Fairbanks, has served on the Alaska State Council on the Arts since February of 1997. He will serve another 3-year term on the council.

-end-

COVER SHEET FAX

To: Andree
Fax #: 269-0223
Subject: Long Range Financial Planning Commission
Date: 10/7
Pages: 2 (Including this cover sheet.)

COMMENTS:

Sorry it took awhile.

From the desk of...

Chief Clerk's Office
House of Representatives
Capitol Bldg, Room 214
Juneau, AK 99801

(907) 465-3725
Fax: (907) 465-5334

HCR 1
President Pearce made the following appointments to the Long Range Financial Planning Commission, created by HOUSE CONCURRENT RESOLUTION NO. 1:

Senator Rieger
Senator Lincoln

Public members:
Hugh Motley, Anchorage
Marie Westfall, Ketchikan
Mike O'Conner, Cooper Landing

Senator Salo moved and asked unanimous consent that she be excused from a call of the Senate on March 10. Without objection, Senator Salo was excused.

ANNOUNCEMENTS

Announcements are at the end of the journal.

ENGROSSMENT

SB 3
SENATE BILL NO. 3 "An Act relating to an antitrust exemption for persons engaged in the fishing industry" was engrossed, signed by the President and Secretary and transmitted to the House for consideration.

ADJOURNMENT

Senator Halford moved and asked unanimous consent that the Senate stand in adjournment until 11:00 a.m., March 8, 1995. Without objection, the Senate adjourned at 11:38 a.m.

Nancy Quinto
Secretary of the Senate

March 1995

Representative James - from 6:30 a.m., March 10 to 6:00 p.m., plane time, March 13, 1995

Representative Moses - from 9:00 p.m., March 11 to 7:00 p.m., plane time, March 14, 1995

Representative Hanley - from 6:45 p.m., March 10 to 8:48 p.m., plane time, March 12, 1995

Representative Foster - from 6:00 p.m., plane time, March 9 to 9:30 a.m., plane time, March 14, 1995 (amended from page 509)

Representative Nicholia - from 6:55 p.m., March 13 to 9:30 a.m., plane time, March 20, 1995

Representative G.Davis - from 6:55 p.m., March 16 to 8:48 p.m., plane time, March 19, 1995

There being no objection, it was so ordered.

HCR 1
Representative Vezey stated that pursuant to:

SENATE CS FOR CS FOR HOUSE CONCURRENT RESOLUTION NO. 1(STA) am S
Creating the Long Range Financial Planning Commission.

the Speaker had made the following appointments to that Commisssion:

Judy Brady - Anchorage
Bruce Ludwig - Juneau
Mary Nordale - Fairbanks
Representative Navarre
Representative Parnell

Alaska State Board of Public Accountancy

5 of 7 members must be certified public accountants or public accountants

Aerospace Developoment Corporation

3 members with high level of experience in finance, economic development, or marketing
2 members who hold or have held positions in the aerospace or commercial space industry

Alaska Commission on Again

6 of the 11 members must be older than 60, 2 of whom must be older that 65
7 of the 11 members must have specific knowledge and interest in concerns of older Alaskans

Agricultural Revolving Loan Fund Board

5 of 7 members must have experience in Alaskan agriculture
2 of the 5 shall be farmers with at least 5 years farming experience

Air Quality/Small Business Assistance Compliance Advisory Panel

4 of 7 members who are owners or representatives of owners of small business facilities

Advisory Board on Alcoholism and Drug Abuse

4 of 15 members must be chronic alcoholics with psychosis who are recovering
3 of 15 members must be substance abuse treatment professionals

Alcohol Beverage Control Board

2 of 5 members must be from the alcoholic beverage industry, but not wholesalers

State Board of Registration for Architects, Engineers, and Land Surveyors

2 of 11 must be civil engineers
2 of 11 must be land surveyors
1 of 11 must be mining engineer
1 of 11 must be electrical or mechanical engineer
2 of 11 must be architects

Board of Governors of the Alaska Bar Association

9 of 12 members must be active members of the Alaska Bar Association

Board of Barbers and Hairdressers

2 of 5 must be licensed barbers
2 Of 5 must be licensed hairdressers, one of whom shall be a licensed cosmetologist

Board of Chiropractic Examiners

4 of 5 members must be licensed chiropractors

Correctional Industries Commission

7 of 9 members must be representatives of manufacturing, marketing, and organized labor

1 of 7 must be an ex-offender

Board of Dental Examiners

6 of 9 members must be licensed dentists
2 of 9 must be dental hygenists

Governor's Council on Disabilities and Special Education

50% of the members must have developmental disabilities or be the guardian of an individual with a developmental disability.

Board of Dispensing Opticians

4 of 5 members must be licensed opticians

Alaska Council on Emergency Services

2 of 11 members must be physicians
3 of 11 members must be pre-hospital emergency care providers
1 of 11 must be an administrator of a Native hospital or health care organization

Board of Forestry

1 of 9 must be a commercial fishermen's organization representative
1 of 9 must be a representative of a Native Corporation
1 of 9 must be an environmental organization representative
1 of 9 must be a forest industry trade association representative
1 of 9 must be a professional fish or wildlife biologist who does not work for any government agency
1 of 9 must be a professional forester who does not work for the State of Alaska
1 of 9 must be a recreational organization representative
1 of 9 must be a mining organization representative

Alaska Historical Commission

3 of 7 members must have professional backgrounds in history, architecture, or archeology

Alaska Housing Finance Corporation Board of Directors

1 of 4 members must have expertise in finance or real estate

Statewide Independent Living Council

1 member must be a director of a center for independent living

Commission on Judicial Conduct

3 of 9 members must be attorneys with 10 years of active practice of law in Alaska
3 of 9 members must be judges

Alaska Judicial Council

Chief Justice of the Alaska Supreme Court
3 of 7 members must be attorneys

Board of Marine Pilots

2 of 6 members must be licensed pilots
2 of 6 members must be agents or managers of vessels

Board of Marital and Family Therapy

3 of 5 members must be licensed members of the board

State Medical Board

5 of 7 members must be licensed physicians

Alaska Mental Health Board

1/2 members must suffer from a mental disorder
2 members must be licensed mental health professionals

Board of Certified Direct-Entry Midwives

2 of 5 members must be midwives

North Pacific Fisheries Management Council

State Long Range Financial Planning Commission Report
FINAL REPORT

(Today's Dollars)

LONG-RANGE FINANCIAL PLANNING COMMISSION	FY 1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
AVAILABLE REVENUES ($ Millions):										
General Fund Source	1,952	1,882	1,669	1,641	1,607	1,575	1,509	1,464	1,414	1,362
Permanent Fund Earnings (Net of inflation proofing & ERA deposits)	565	500	630	648	677	700	727	759	785	810
	-	-	-	-	-	-	-	-	-	-
NEW TAXES AND FEES ($Millions)	-	-	-	-	-	-	-	-	-	-
Highway Motor Fuel Tax (@ $.219/gal., indexed)	-	38	39	39	40	41	41	42	43	43
Marine Motor Fuel Tax ($.08/gal., indexed)	-	5	5	5	5	5	5	5	5	6
Tobacco Tax ($1/pkg cigs; 75%/chewing; +25¢ triennially)	-	42	41	40	50	49	48	57	56	55
Motor vehicle license fees (double)	-	-	27	27	26	26	26	25	25	24
User fee increases	-	3	6	8	11	13	12	12	12	11
Fishery and other resource tax increases	-	-	28	28	28	28	28	28	28	28
Tourism tax increases	-	-	19	19	19	19	19	19	19	19
Alcohol taxes (increase triennially)	-	19	19	19	22	22	22	21	25	25
Income tax	-	-	-	-	-	-	58	224	227	230
	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUE	2,517	2,490	2,483	2,475	2,485	2,478	2,495	2,656	2,639	2,614
	-	-	-	-	-	-	-	-	-	-
EXPENDITURES ($ Millions):	-	-	-	-	-	-	-	-	-	-
Total GF spending on current programs	2,476	2,365	2,264	2,167	2,118	2,135	2,152	2,169	2,186	2,204
PF Dividends	565	500	438	378	367	356	345	334	324	314
	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	3,041	2,865	2,702	2,546	2,485	2,490	2,496	2,503	2,510	2,517
	-	-	-	-	-	-	-	-	-	-
PROJECTED ANNUAL FISCAL GAP ($ Millions)	[illegible]	(378)	(219)	(71)	1	(12)	(1)	[illegible]	[illegible]	97
	-	-	-	-	-	-	-	-	-	-
CONSTITUTIONAL BUDGET RESERVE ENDING BALANCE ($ Millions)	1,500	1,456	1,412	1,368	1,326	1,285	1,245	1,207	1,170	1,134
	-	-	-	-	-	-	-	-	-	-
PERMANENT FUND EARNINGS RESERVE ENDING BALANCE	922	1,194	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
PERMANENT FUND MARKET VALUE ($ Millions)	17,766	17,625	19,391	20,131	20,804	21,459	22,110	22,887	23,657	24,379
	-	-	-	-	-	-	-	-	-	-
PER CAPITA PERMANENT FUND DIVIDEND	990	852	727	611	582	553	526	501	475	452
PER CAPITA SPENDING	4,938	4,579	4,250	3,941	3,786	3,735	3,686	3,638	3,589	3,543

Special Acknowledgements

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

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

The State Long Range Financial Planning Commission Members

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An Endowment For Alaska's Future

The State Long Range Financial Planning Commission Report

State Long Range Financial Planning Commission Report
EXECUTIVE SUMMARY

Alaska's fiscal gap is real and growing

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

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

What does the plan do? It:

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

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

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

The first three years

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

Cut spending

- Cut current State general fund spending by $100 million — $40 million in 1996, $30 million in 1997, and $30 million in 1998 — a reduction of $300 million in today's dollars.
- Reduce per capita State general fund spending from $4,020 to $3,692 in four years — a reduction to $3,255 in today's dollars.

Increase Revenues

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

Use the Permanent Fund as an endowment

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

Boost the earning power of the Permanent Fund

- Build Permanent Fund principal by
  (a) making additional special deposits to fund principal;
  (b) increasing the minimum annual deposit to the Permanent Fund;
  and (c) retaining additional earnings in the Permanent Fund.
- Deposit $600 million from the Constitutional Budget Reserve into the Permanent Fund this year.
- Close out the Permanent Fund Earnings Reserve once the endowment is in place, by depositing it into the Permanent Fund (approximately $1.2 billion)
- Increase to 50 percent the minimum contribution to the Permanent Fund from certain oil, gas and mineral lease revenues.
- Retain earnings in excess of the 4 percent annual payout in the fund. Since the projected rate of return to the fund is 4.79 percent after inflation, the Fund should retain earnings above inflation-proofing of at least 0.75 percent annually.

Cap the Permanent Fund Dividend pool

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

Clarify the purpose of the State's reserves

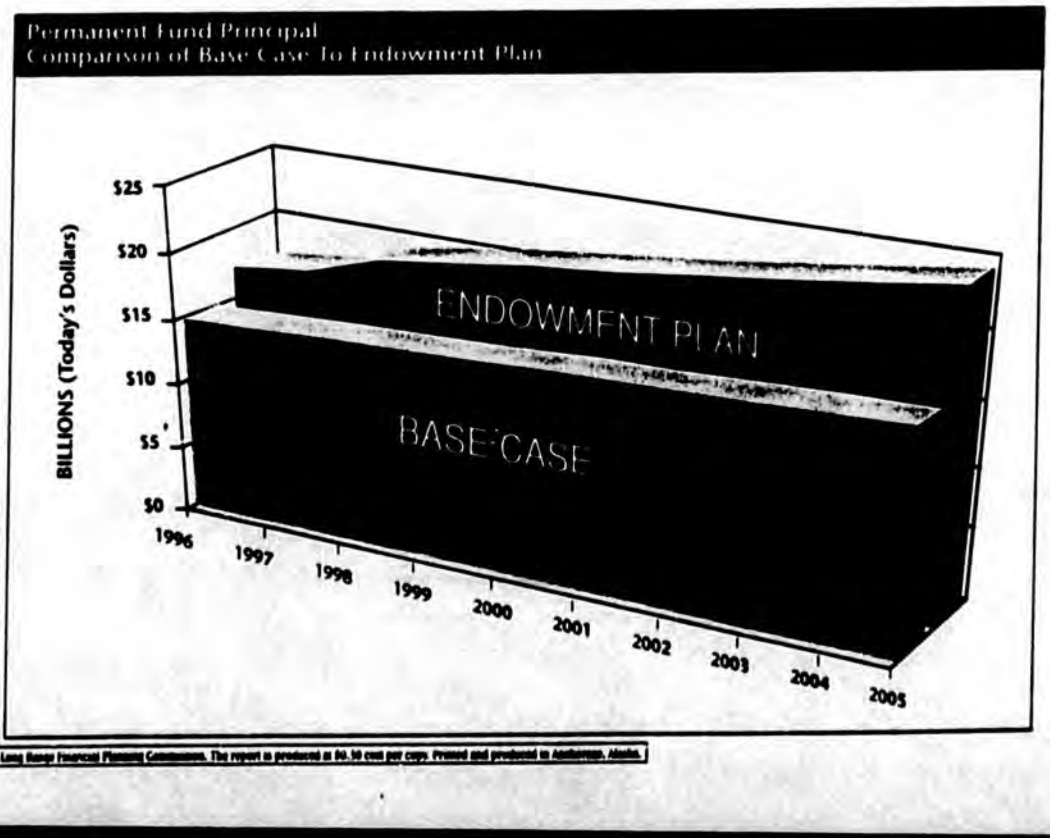
- Maintain the CBR at $1.5 billion to cushion against oil revenue volatility. Clarify its use and repayment in a constitutional amendment.

Reform the budget process

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

The five- and 10-year plan

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



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State Long Range Financial Planning Commission Report
FINAL REPORT

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

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

This year, the State will spend $524 million more from the State general fund than it will take in — this is the fiscal gap. That gap will grow to $768 million in three years, to $879 million in 5 years, and $1.253 billion in 10 years (in today's dollars) if we make no changes to the State's spending and revenue policies. Our interim report contains more details about the growing fiscal gap and options available to close the gap.

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

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

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

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

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

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

These include:

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

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

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

What the plan does:

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

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

Closes the fiscal gap by the year 2000

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

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

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

Stabilizes and diversifies revenues

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

Controls State general fund spending

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

Maintain a reserve to dampen the effect of oil price swings

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

Decreases our dependence on volatile oil revenues

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

The plan closes the fiscal gap with the following steps:

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

The first three years

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

Cut spending

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

- The plan calls for State general fund spending to be reduced by $100 million in three years — $40 million in FY97, $30 million in FY98, and $30 million in FY99 — a reduction of $300 million in today's dollars.
- This decline of State spending reduces per capita State general fund spending from $4,020 to $ 3,692 in four years — a reduction to $3,255 in today's dollars.
- The Commission believes this level of reduction in State spending will be painful, but is a necessary step toward closing the fiscal gap. Recent legislatures have managed to hold spending level, which has resulted in real reductions to some State programs.
- Within these budget targets, the Commission believes the State should give attention to deficits in the State's infrastructure spending, most particularly for maintenance on publicly-owned facilities, roads and highways.
- The Legislature and the Administration may wish to con-

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The Plan Recommended By This Commission

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

State Long Range Financial Planning Commission Report
FINAL REPORT

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

General recommendations for budget reductions include:

Public salaries and benefits

• Enact a retirement incentive program to reduce personal services expenditures.

• Enact a new Tier III retirement system to reduce retirement benefits for new State and local government employees.

• Revise geographic pay differentials for non-covered State employees.

• Study geographic cost differentials in Alaska for use during collective bargaining negotiations with covered State employees (and for use in other State formula programs).

• Compare salaries and benefits of public employees to appropriate public and private markets in Alaska and the Pacific Northwest. Use that comparison to move Alaska's public pay system for State employees, local government employees, and school districts to market.

• Examine the publicly funded health plans for State, local government, school district, and University employees as well as those who receive Medicaid. Look for opportunities to save substantial costs through pooling or other mechanisms.

Administrative realignment

• Reengineer the delivery of State services to eliminate excessive administration.

• Consolidate state departments and agencies, and realign administrative services.

• Look for opportunities to privatize State programs or to contract out State services. Allow "insourcing" so groups of State employees can offer their own solutions to reduce costs in programs that may otherwise be contracted out.

Target high-cost programs

• If the current litigation against the Alaska Longevity Bonus is successful (ending the current phase-out), eliminate the program.

• Change the Public School Foundation Formula to reduce the growth in education spending. The required local effort should be reexamined, as well as provisions that allow school districts to obtain greater funding for special category students regardless of the programs offered to those students.

• Enact a welfare reform package to reduce dependency on welfare programs and put current welfare recipients to work.

• Revise fee schedules for services such as Pioneers' Homes to reflect cost and ability to pay.

• Examine areas of State spending with disproportionately high costs when compared with other States and determine whether there are legitimate reasons for such programs.

Shift revenues and responsibilities to local governments

• Repeal the State mandate for senior citizens' and veterans' property tax relief by local municipalities, but allow local option to grant or withhold the exemption.

• Transfer a portion of State motor vehicle and motor fuel tax receipts to local governments together with the responsibility for class III local road maintenance.

• Eliminate or shift some inspections to local governments with the ability to collect fees for program support.

• Eliminate State general fund support of troopers for road patrols in communities of more than 2,500, but allow communities to continue retain such services if they are willing to pay for them.

Avoid new costs

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

Funds Which Affect The Fiscal Gap

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

Funds Which Do Not Affect The Fiscal Gap

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

Funds Which Cannot Be Appropriated To Other Purposes

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

Increase Revenues

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

Increases to existing taxes include:

Tobacco taxes

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

Alcohol taxes

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

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

We recommend the following increases:

Motor fuel taxes

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

Marine motor fuel taxes

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

Motor vehicle license plates

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

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port

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User fees

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

Fishery and other resource taxes

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

New taxes and changes to tax apportionment include:

• Establish new taxes to generate at least $20 million from tourists. While the Commission was unable to reach consensus on the precise method for gaining additional revenue from tourists or the tourism industry. The Commission believes this part of our economy does not fully pay for the State's cost of providing infrastructure and support to the industry.

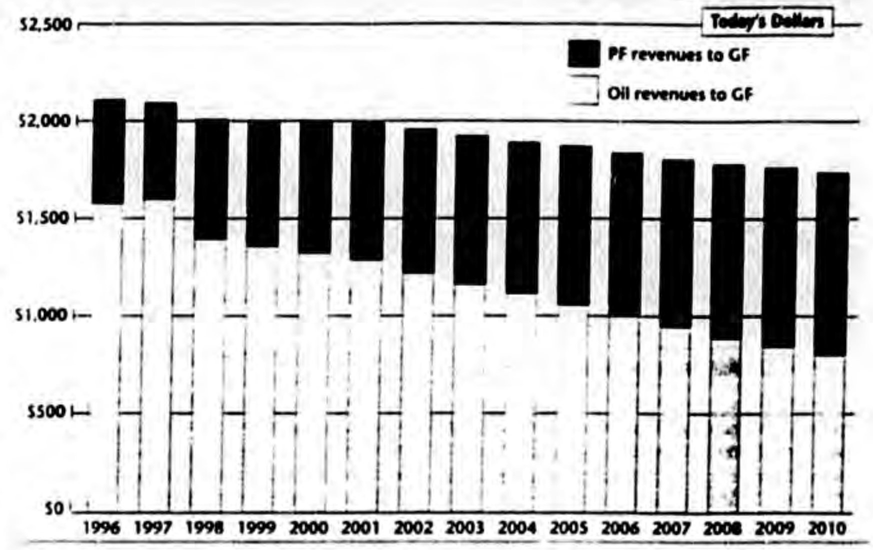
• The Commission believes the State's oil and gas production property tax, currently set at 20 mills, should benefit both the State and local governments affected by oil development. State law should be amended to limit the local government share to 10 mills on new oil and gas properties built after 1995, ensuring the State receives at least 50 percent of this revenue source.

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

Establish the Permanent Fund as an endowment

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

Permanent Fund Earnings Replace Oil Earnings



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

• The plan establishes the Permanent Fund as an endowment that pays up to four percent of the Fund's five-year average market value to the general fund for the dividend program and State services. This use of Permanent Fund earnings will partially replace declining oil revenues. The Commission recommends a four percent payout based on the experience of other endowment funds in the United States, and takes into account the Permanent Fund's earning experience, asset allocation, and need to protect the principal.

• Earnings of the Permanent Fund in excess of this four percent payout rate are retained in the fund. Years with good investment performance will, over the long run, balance years with poor investment performance in order to more than fully inflation-proof the fund.

• The plan calls for an increase to 50 percent of the minimum contribution to the Permanent Fund from certain oil, gas and mineral lease revenues. The plan calls for an amendment to the constitution to achieve that increase.

• The endowment is further built up by a deposit from the Permanent Fund Earnings Reserve and deposits of any funds in excess of $1.5 billion in the Constitutional Budget Reserve.

Cap the Permanent Fund Dividend pool

The Permanent Fund Dividend program is an important source of protection for the principal of the Permanent Fund and it is important source of income to Alaskans. Without changes to the program, however, dividends will grow to take a major share of State revenues — $965 million in 2005. The Commission recommends:

• Reduce the total amount spent for the Permanent Fund Dividend program from $565 million this year by $50 million a year for three years.

• Individual dividends will be about $900 next year, $800 in 1997, and $700 in 1998.

Clarify the purpose of State's reserves

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

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

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

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

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

Reform the budget process

The Commission found the budget process does not yield

Continued On Next Page

Total Revenues Vs Expenditures

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State Long Range Financial Planning Commission Report
FINAL REPORT

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

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

Continued From Previous Page

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

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

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

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

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

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

The five- and ten-year plan

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

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

First Session Progress Report on the Financial Plan

Legislation

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

Budget Action

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

Second Session Progress Report

Legislative Action

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

Budget Action

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

Third Session Progress Report

Legislative Action

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

Budget Action

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

What The Plan Does

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

Report

2004	2005
1,414	1,362
785	810
-	-
-	-
43	43
5	6
56	55
25	24
12	11
28	28
19	19
25	25
227	230
-	-
2,630	2,614
-	-
-	-
2,188	2,204
324	314
-	-
2,510	2,517
-	-
[illegible]	[illegible]
-	-
1,170	1,134
-	-
-	-
-	-
23,887	24,378
-	-
475	452
3,580	3,543

Members

State Long Range Financial Planning Commission Report
DISSENTING OPINIONS

By State Sen. Steve Rieger

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

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

The Composite Scenario

A set of meaningful but non-precipitous budget cuts, a series of smaller taxes and fees, and use of a portion of the Permanent Fund's earnings after inflation-proofing, closes the gap entirely for about a decade. Under a "Composite Scenario" developed during the Commission's deliberations, (and using the Commission's assumptions), by the year 2010 these measures would also result in a Permanent Fund balance of almost $30 billion and additional cash reserves of over $5 billion. In today's dollars these numbers would be over $19 billion and $3 billion respectively. The Composite Scenario represents a reasonable course for Alaska.

Where the Commission Report and the Minority Report part company most dramatically is the extent to which they pursue the goal of making the Permanent Fund an "endowment" for future government spending. To pursue this thought, the Commission Report recommends diverting an additional $250 million of today's royalties away from the general fund and into the Permanent Fund, thereby cutting the present state revenue stream by approximately $250 million per year and actually increasing the fiscal gap; by dumping most present or forecast cash reserves into the Permanent Fund; reducing the dividend payout more than in the "Composite Scenario" referred to above; imposing an additional $40 million to $50 million per year in small taxes over those used in the Composite Scenario; and by imposing a major new personal income tax generating $385 million per year by the year 2010. These measures, including the smaller reserves, result in a Permanent Fund which is a little over $40 billion in the year 2010, or the equivalent of $26 billion in today's dollars.

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

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

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

By State Rep. Sean Parnell and Hugh Motley

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

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

The Commission's Plan Is Unacceptable to the General Public

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

The Benefits of a True Endowment System

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

Principles to Use for Closing the Present Fiscal Gap

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

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

By Senator Georgianna Lincoln

A Different Opinion

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

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

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

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

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

SENATE CS FOR CS FOR HOUSE CONCURRENT RESOLUTION NO. 1(STA) am S

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Amended: 2/10/95
Offered: 2/8/95

Sponsor(s): REPRESENTATIVES Phillips, B.Davis, Green, Rokeberg, Navarre, James, Williams, Bunde, Kohring

A RESOLUTION

Creating the Long Range Financial Planning Commission.

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

WHEREAS state spending has exceeded recurring revenue to the state; and

WHEREAS the state must eliminate the fiscal gap; and

WHEREAS the state is currently forced to deal with an unpredictable and declining revenue stream; and

WHEREAS the state must find a means of stabilizing revenue and expenditures at a sustainable level; and

WHEREAS the state's system of budgeting and spending must be analyzed and reevaluated by the legislature; and

WHEREAS the citizens of the state should have an opportunity to consider these topics, offer comments, and participate in developing a long-range financial plan for the state; and

WHEREAS it would be beneficial to the state and its citizens to implement a long-range financial plan to promote economic stability by diversifying the state's economy and lessening dependence on oil revenue;

BE IT RESOLVED that the Alaska State Legislature establishes the Long Range Financial Planning Commission in order to develop and recommend to the governor and the legislature a long-range financial plan for the state; and be it

FURTHER RESOLVED that the commission shall consist of the following voting members:

(1) nine members of the public, not to include members of the legislative, executive, or judicial branches; the Speaker of the House of Representatives, the President of the Senate, and the Governor shall each appoint three of these members;

(2) two members of the House of Representatives appointed by the Speaker of the House; one member shall be a member of the majority and one a member of the minority;

(3) two members of the Senate appointed by the President of the Senate; one member shall be a member of the majority and one a member of the minority; and

(4) two members of the executive branch appointed by the Governor; and be it

FURTHER RESOLVED that the commission shall select a chair and vice-chair from among the public members of the commission, shall meet as frequently as the commission determines necessary to perform its work, may meet during the interim, and may meet and vote by teleconference; and be it

FURTHER RESOLVED that the public members of the commission shall serve without compensation but are entitled to travel expenses and per diem as authorized under AS 39.20.180 for boards and commissions; and be it

FURTHER RESOLVED that the commission shall

(1) review and evaluate state fiscal policy and strategy recommendations and assumptions from reports and publications from similar efforts in the past made by the executive branch, the legislative branch, the University of Alaska, nonprofit organizations, and private individuals and organizations;

(2) identify and evaluate all current state income sources and assets, including recurring revenue, reserves, physical resources, and investments;

(3) identify and prioritize systemic changes to stabilize the state's revenue stream;

(4) identify and prioritize major reductions in state expenditures, to include formula and nonformula programs, and to include proposed consolidation, transfer, or elimination of governmental services or programs; the reductions identified and prioritized under this paragraph must at least equal the current fiscal gap between recurring revenue and recurring expenditures;

(5) evaluate forward funding of the budget;

(6) identify and prioritize new sources of revenue;

(7) project a sustainable long-range financial plan for the next three years, five years, and 10 years, based on a stable revenue stream;

(8) evaluate constitutional, statutory, and regulatory language relating to the budget process and recommend changes;

(9) consider the division of responsibility for providing services and raising revenue between the state and local governments and evaluate the effect of the long-range financial plan on local governments;

(10) submit a preliminary report to the Governor and the Legislature by July 15, 1995;

(11) disseminate information and solicit public comment;

(12) submit a final report to the Governor and the Legislature by October 1, 1995, recommending a long-range financial plan for the state, including specific actions and legislation needed to implement and monitor the plan; and be it

FURTHER RESOLVED that the commission is authorized to begin work immediately upon the appointment of its full membership or March 15, 1995, whichever date is earlier, and is terminated upon the convening of the Second Regular Session of the Nineteenth Alaska State Legislature.

MARKETING

ALASKA

The Governor's Economic Development Initiative

1996 Summary

Governor's Message

Early in my Administration, I asked Alaska's best and brightest from both the public and private sectors and challenged them to develop ideas to prepare Alaska for the changing global economy of the 21st century. Their results—the Marketing Alaska report - reinforce my belief that the path to a vibrant economic future for Alaska families depends on a cooperative partnership between government and the private sector. With this in mind, my Administration has strived to create a healthy business climate in Alaska—a climate that helps Alaskans and their businesses succeed. Marketing Alaska will take this mission one step further by promoting Alaska products outside our state and truly making Alaska open and ready for business.

These recommendations focus on areas important to Alaska's economy: forest products, mining, seafood, small business, technical services such as telecommunications and transportation, tourism, and cultural resources such as Native heritage. These recommendations will reinforce my Administration's efforts to further strengthen Alaska's economy by detailing ways state government could better assist Alaska businesses, add more value to Alaska's resources, bring more jobs to Alaska, and open up more markets for Alaska's goods and services.

I believe these recommendations will chart a path towards a strong, diverse economy. Please take a look at these recommendations and let us know what you think. By working together, we can build a bright future for Alaska's families.

Tony Knowles
Governor

Marketing Alaska

The Governor's Economic Development Initiative

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MARKETING

ALASKA

Marketing Alaska

The Governor's Economic Development Initiative

1996 Summary

I. Introduction

MISSION

Marketing Alaska is a multi-year program to create quality jobs for Alaskans, and to encourage more commerce with Alaska-based business, while protecting the state's environment and its cultural resources.

OVERVIEW

Alaska has a rich array of natural and cultural resources. Translating this wealth into economic opportunities for all Alaskans and maintaining the basis of this valuable heritage is a challenge that can be met through planned development and creative marketing. **Governor Knowles introduced the *Marketing Alaska* initiative in his State of the State Address, saying "Alaska is open and ready for business."** As a participant in the global economy, Alaska must be smarter in how it markets its uniqueness. *Marketing Alaska* will promote economic opportunities and foster job creation through the expansion and creation of industries, and will incorporate both domestic and international trade opportunities. *Marketing Alaska* creates a dynamic, ongoing development process based on a partnership between the state government, private industry, the federal government, local government, and the public.

The *Marketing Alaska* recommendations are aimed at three broad goals:

1. Investing in Alaska's Future
2. Creating Opportunities for Alaskans and their Communities
3. Selling Alaska Goods and Services to the Nation and the World

II. Process

Marketing Alaska sector work groups were established to maximize resources and set realistic targets. The work groups were limited to the following sectors:

- Cultural Resources (including Alaska history, Native heritage, and Native arts and crafts)
- Forest Products
- Mining and Minerals
- Oil and Gas (Oil and Gas Policy Council—producing separate reports)
- Seafood
- Small Business
- Technical Services (including telecommunications, environmental services, oil and gas support services, transportation and logistical services, information technology services, education and training services, research and science, and architecture, engineering and construction)
- Tourism (including film production)

Each work group was co-chaired by the private and public sectors and was comprised of government, industry, public interest, legislative, and university representatives. Staff were assigned to each work group from the Department of Commerce and Economic

Development and other state agencies. The combined work groups had 114 official members. Many other individuals were consulted for their expertise.

The primary purpose of the sector work groups was to develop sector strategies under the general direction of the *Marketing Alaska* Executive Committee. The key purpose of the sector strategies is to identify realistic and specific actions that state government can perform to enhance the sectors and fulfill the *Marketing Alaska* mission.

Essential components of the sector strategy included: an assessment of product's/service's success in existing markets; industry's capacity to expand the market; meaningful participation from industry; extensive coordination amongst state agencies; focused sector meetings; identification of each sector's commitment to work together with government (contributing time, knowledge and resources); realistic objectives; and specific action plans.

Committees were established within sector work groups to address specific issues and opportunities. To assure that the *Marketing Alaska* team created strategies that were compatible with local and regional goals, organizations including the Alaska Regional Development Organizations (ARDORs), non-profits and industry groups were identified within each sector to participate in the planning process. Out of all their work, the sector groups -- in response to the *Marketing Alaska* mission—developed 214 recommendations affecting many aspects of state government.

Marketing Alaska Executive Committee. Under the direction of Governor Tony Knowles and chaired by William Hensley, commissioner of the Department of Commerce and Economic Development, the *Marketing Alaska* Executive Committee included Jerome Komisar, president of the University of Alaska, John Katz, director of the Washington, D.C. Governor's Office, John Shively, commissioner of the Department of Natural Resources (DNR), Frank Rue, commissioner of the Department of Fish and Game (ADF&G), Mike Irwin, commissioner of the Department of Community and Regional Affairs (DCRA), Joseph Perkins, commissioner of the Department of Transportation and Public Facilities (DOTPF), and Tom Cashen, commissioner of the Department of Labor (DOL). Representing the private sector were Gregory Carr (Gregory and Associates), Janie Leask (NBA), and Bill Allen (VECO).

The primary role of the executive committee was to oversee the development and implementation of the *Marketing Alaska* program. The *Marketing Alaska* program was based on a sectoral approach to economic development, where each industry is considered as a separate sector. The executive committee ensured that other legitimate perspectives and concerns, present in each sector, were integrated into the overall program including the local and regional perspective, transportation, manufacturing, and international trade.

SECTOR WORK GROUP SCHEDULE AND PROCESS

Each sector work group established its own meeting schedule to accomplish its goal of developing a sector strategy within the established timetable.

Each sector strategy document included:

- current market situation, which presents relevant background data on the market, product, competition, distribution, infrastructure, and global environment;
- opportunity and issue analysis which identifies the main opportunities/threats, strengths/weaknesses, and issues facing the sector/product;
- goals and objectives of the strategy; and
- recommendations to meet the strategy's objectives.

Each economic sector work group submitted its strategy for initial review by the *Marketing Alaska* Executive Committee. Sector work groups made final revisions to strategies in October before submitting their final reports to the executive committee.

III. Major Themes of the Sector Work Group Recommendations

The executive committee discussed and reviewed the 214 recommendations contained in the seven sector reports, combining them into 184 recommendations. In the process, the committee, first, categorized the recommendations by nine subject areas (education and training, government policies, infrastructure, marketing and trade promotion, planning, public information, regulatory reform, research and development, and rural development) to determine the areas of state government that were addressed by the recommendations. Second, the committee identified the five major themes that were present in all sectors and cut across all subject areas.

A. MAXIMIZE THE VALUE OF ALASKA'S NATURAL AND CULTURAL RESOURCES

Appropriate access to and marketing of Alaska's natural resources and cultural heritage offers economic opportunities for all sectors as well as personal opportunities for employment, education and an improved quality of life for Alaskans and their families.

B. ENSURE A FISCALLY RESPONSIBLE AND STABLE STATE GOVERNMENT

An inviting business climate will be created by balancing the state government's budget and by maintaining state services at a level competitive with other states in the nation. Fiscal stability is needed to ensure that the state agencies managing state resources that support private sector projects would have the funding necessary to do their work and to reassure investors that Alaska is a good place to develop projects and do business.

C. STRENGTHEN THE RELATIONSHIP BETWEEN THE PUBLIC AND PRIVATE SECTORS

Continued collaboration between government, private industry and the public is needed to balance all of the state's interests in reforming the regulatory process and developing policies, regulations, enforcement procedures, services, and economic development strategies. Government should operate in a customer friendly fashion and move away from acting solely as an "enforcer" to acting as an aide to responsible commercial development.

D. PROMOTE VALUE-ADDED PROCESSING AND MANUFACTURING

Alaska has outstanding potential for advancing value-added processing and manufacturing and new product development in those areas in which the state has relative advantages, such as forestry, fisheries, and mining. The expansion of local, year-round value-added processing would increase the value of Alaska's resources and expand employment opportunities for Alaskans.

E. MAINTAIN AND ENHANCE INFRASTRUCTURE AND HUMAN RESOURCES

Maintenance and enhancement of the state's infrastructure—transportation, education systems, telecommunications—is necessary to ensure a solid foundation for economic growth. Of particular importance are federal transportation funding that keeps pace with the state's needs, investments in labor force preparation through "school to work" and "technical preparation" programs, and the advancement of the state's "electronic highways."

IV. Implementation of Recommendations

The executive committee discussed each recommendation and sorted them into implementation categories: top priority action, immediate action, and further dialogue needed. The executive committee selected 21 recommendations as top priority action items which should be implemented immediately to signal that Alaska is truly open and ready for business. The top priority recommendations are identified in each of sector recommendation sections which follow. Immediate action recommendations will be forwarded to the departments for implementation. Further dialogue recommendations will be revisited by the executive committee for additional information, research, discussion, or revision.

V. Corporate Calling Program

One of the key components of *Marketing Alaska* is the Corporate Calling Program. As the number one sales person for the state, Governor Knowles, along with each commissioner and other administration officials, when convenient during regular business travel, will personally meet with chief executive officers or senior officials of prominent companies currently doing business in the state. Often this means traveling to the company's headquarters and making an executive-level contact to find out what Alaska can do to help companies increase their level of investment in Alaska, leading to expanded production or services, and more employment.

VI. Marketing Alaska in the Future

Perhaps the greatest lasting value of *Marketing Alaska* to date is the contacts which have been made between parties who rarely meet face-to-face, and the opportunity the parties had for a wide-ranging and open discussion about many issues. All of the sector groups wanted to see this "dialogue" continued. They would like to be part of the continuing discussion about the issues and the implementation of specific *Marketing Alaska* recommendations.

The executive committee's intention is to set Alaska's state government on a new course by moving forward with the implementation of many of the specific recommendations, focusing on areas with high unemployment. For other recommendations, the initial implementation can start now with the results to occur in the years to come. All of these recommendations are listed in the "*Marketing Alaska* Executive Committee Report to the Governor" (in matrix format).

For those recommendations that, in the executive committee's judgement, require more information, further research, or additional discussion (listed under the heading "Further Dialogue Needed"), the executive committee recommends that the sector groups and the affected state agencies work with all interested parties to resolve the problems. The recommendations all highlight areas where Alaska's private/public partnership could be strengthened.

Many of the sectors deferred discussion of promotional activities. They felt that improved products, a friendlier business climate, and the development of human resources were the most important subjects to consider at this time. Other sectors felt that more discussion was needed to chart future marketing efforts.

Marketing Alaska is an on-going process through which Alaska's state government can obtain guidance on the issues and opportunities it should address related to economic development. While it continues to work with Alaska's industries, the state government will also initiate an annual report card to the Governor -- listing the *Marketing Alaska* recommendations -- to measure the progress and the effectiveness of the efforts developed through this initiative. Together, the government, the public, and industry can ensure quality jobs for Alaskans, while protecting the environment.

MARKETING

ALASKA

Marketing Alaska Executive Committee

Chair

COMMISSIONER WILLIAM L. HENSLEY
Department of Commerce and Economic Development

Members

BILL ALLEN
VECO Corporation

GREGORY CARR
Gregory & Associates

JANIE LEASK
National Bank of Alaska

COMMISSIONER TOM CASHEN
Department of Labor

COMMISSIONER MIKE IRWIN
Department of Community and Regional Affairs

JOHN KATZ
Special Counsel
Office of the Governor

DR. JEROME KOMISAR
President
University of Alaska

COMMISSIONER JOE PERKINS
Department of Transportation and Public Facilities

COMMISSIONER FRANK RUE
Department of Fish and Game

COMMISSIONER JOHN SHIVELY
Department of Natural Resources

Staff

DEBORAH B. SEDWICK
Assistant Commissioner

VERONICA SLAJER
Special Assistant to the Commissioner

TOM LAWSON
KARL OHLS
JENNIFER LEKISCH
Department of Commerce and Economic Development

Marketing Alaska
Executive Committee

Summary

The Marketing Alaska Executive Committee, in looking at the reports from all of the economic sectors, found issues that required more comprehensive consideration. To address these issues, the committee prepared four new recommendations. Three are based on recommendations in the sector reports and one is based on the separate work of the Governor's Oil and Gas Policy Council.

Recommendations

Top priority

1 Establish or continue work groups or advisory committees for industry representatives, the public, and state government officials to discuss regulatory issues and build upon present administration efforts. The goal is to promote a business friendly regulatory system in the state, while protecting the environment, maintaining healthy natural resources, and safeguarding the interests of Alaska workers. The groups and committees shall report to the Governor by July 1, 1996 with lists of recommendations involving administrative policies or statutory changes. Specific subjects to address include:

a. **Seafood Industry** — Labor, environmental, and fisheries management regulations.
b. **Forest Products Industry** — Integration of the air, land and water quality regulatory process both within agencies and where there are impacts on other agencies' jurisdictions in order to share expertise, develop common recommendations and conditions, and avoid high industry costs caused by segmented consideration and implementation of regulatory requirements.
c. **Mining Industry** — Policies for determining and facilitating how minerals projects can be developed to meet environmentally responsible and acceptable standards rather than why projects cannot be developed.
d. **Tourism and Film Production** — An effective and efficient permit process to make land use permitting consistent, accessible and timely.
e. Training for government employees, private industry and the public about how to participate in consultative, nonconfrontational decision-making.
f. Customer service training for all state employees complete with an evaluation process to ensure its effectiveness.

2 Issue a challenge to each state cabinet member to propose innovative solutions to funding resource management and economic development proposals. Report back to the Governor by August 30, 1996. Suggestions made by the Marketing Alaska sector work groups involve agreements and joint ventures with the private sector. Some of the innovative means may require legislative changes to allow the agencies to receive or direct the allocation of funds received or offered by private industry.

3 Initiate a multi-departmental analysis of the tax incentives and other fiscal measures recommended by the various sector work groups to encourage the in-state, value-added processing of seafood, timber, and other natural resources. Complete the analysis within six months. Use the analysis to determine the fiscal and other impacts of the recommendations. Based on the results, modify the proposals to maximize benefits and minimize drawbacks. Forward the proposals to the Governor for further action.

4 Promote Alaska facilities and contractors for component fabrication and construction projects related to oil and gas exploration and development. Encourage development of Alaska's natural gas resources, promoting markets for in-state use as well as export. (The Oil and Gas Policy Council will provide more detailed information and recommendations in its report to the Governor.)

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Cultural Resources Sector

Summary

Alaska's cultural resources give the state much vitality. A McDowell Group Report concludes that nonprofit arts activity supports 1,300 Alaska jobs with a payroll of over $9 million and attracts $12.6 million in grants and revenue. In one year, arts organizations held 3,000 events attended by more than two million people that generated $23.5 million in spending in Alaska. The state has 52 active public and private historical societies and museums.

Each year more than one million people visit Alaska. Festivals, celebrations, and historic sites are popular. The Iditarod Sled Dog Race and the spring Inupiaq whale hunt receive national attention. Four of the ten most visited tourist attractions are cultural resources — Ketchikan's totems, Skagway's Historic Gold Rush District, the Anchorage Museum of History and Art, and Sitka's Russian church and dancers.

Alaska's vibrant, dynamic, indigenous people and their art and crafts are significant visitor attractions. In recent years there has been a renaissance of Alaska Native art and crafts, and a growing pride and awareness of Alaska's unique, indigenous art.

Private and public efforts to create a sustainable cultural tourism industry are underway. As the 1995 White House Conference on Travel and Tourism demonstrated, cultural resources development and tourism are growing nationally and in Alaska. Cultural tourism is one of the fastest growing segments of the world travel industry. According to the Division of Tourism, the number of visitors to Alaska between 1992 and 1994 who sought cultural experiences increased by 27 percent. These tourists stay longer and buy art and crafts from local artists and artisans.

The in-state market for cultural tourism also has potential. Alaska's transient population provides an ever-changing group that can be encouraged to learn about Alaska's people, history, and art.

One advantage of cultural tourism is that it can be controlled. Particularly in rural areas, activities can be timed and patterned to minimally disrupt residents' lives and traditional activities.

Recommendations

Top priority

1 Develop the full potential of Alaska's cultural resources as a viable economic sector. As a first step, prepare a comprehensive strategic plan using the Marketing Alaska recommendations. Allocate an existing DTD position to coordinate this effort.

- Conduct a cultural resources marketing needs assessment and baseline survey.
- Create partnerships between Alaska schools and Alaska businesses and nonprofits to create jobs, emphasize development in under-served rural areas, promote self-sufficiency, involve youth and elders, and focus resources in the community for appropriate culture-based economic development.
- Evaluate cultural resources marketing programs in Hawaii, New Mexico, the Pacific Northwest, Greenland, Russia, and Canada.
- Coordinate state planning with locally developed plans.
- Establish Internet culture web sites with a calendar and information exchange.

- Create a formal network for regular round table meetings to encourage collaboration and dialogue. Participants should come from government, Native, business, professional, nonprofit, and private sectors.
- Assess and provide support to existing partnerships (i.e., Yupik Cultural Center, Alaska Native Heritage Center, Institute of Alaska Native Arts).

Immediate Action

2 Expand preschool, K-12, and post-secondary curricula in Alaska studies.

3 Support community projects to record and preserve language and transfer language skills. Take advantage of the Native American Languages Act of 1992 to develop Native language teaching materials and train Native speakers to use these materials in K-12 schools; encourage media broadcast in Native languages; compile, transcribe, and analyze oral tradition, history, and ethnographies; involve learners of all ages; and train teachers in the use of these materials.

4 Train educators to better understand the relationship between art, history, and culture in Alaska, and its tie to Alaska's economy.

5 Encourage hands-on experience-based learning in the arts, history, archaeology, and culture of Alaska. Establish cultural resource residency programs for high school students.

6 Strengthen existing curricula and develop new cultural resource education and training programs for secondary and post-secondary learners. Priority programs should include marketing, small business management, museum studies, cultural resource management, and nonprofit management and fund raising.

7 Develop promotional materials targeting private investment in commercial historic districts.

8 Develop cultural resources marketing tools. Elements might include:

- Targeted kits for cultural resource marketing. Kits could include how-to tips, templates, sample business marketing plans, and contacts.
- Integrated marketing of Alaska's cultural resources, with special pieces for festivals, performing arts, galleries, historical sites, museums and Alaska Native arts and crafts. Produce these materials in a variety of languages and formats.
- Demonstrations, shows, exhibits, and publications throughout the state to provide opportunities to display and sell products.
- Develop an "Alaskan author" logo program to identify books by Alaskans.

9 Establish a clearinghouse for information about Alaska's cultural resources.

- Maintain a database of Alaskan organizations, events, festivals, artists, gathering places, reputable wholesalers and retailers, and suppliers.
- Maintain a detailed annual calendar and solicit information from across the state.
- Maintain a database of contacts for technical assistance.
- Distribute information through the Internet.
- Obtain private sector underwriting through advertisement.

10 Develop press strategy and package to promote Alaska's cultural resources.

11 Recognize cultural resources through awards, publicity, displays, brochures, exhibits.

- Continue "Governor's Award for the Arts."
- Create a "Governor's Award for Literature."
- Create a "Governor's Award for the Humanities."
- Print and distribute artist and artisan profiles.
- Develop a video series on artists, writers, cultural resources organizations, and sites.

12 Endorse a "give five" campaign to promote donations of time and dollars to Alaska's cultural community. The goal should be to encourage Alaskans to give five percent (time and money) to cultural organizations of their choice.

13 Promote community workshops for retail buyers, producers, and consumers addressing culture, art forms, practices, history, and laws affecting traditional and other natural materials (e.g., Marine Mammal Protection Act).

Build consumer awareness of the differences between elephant and walrus ivory.

Further Dialogue Needed

14 Form a Cultural Resources Commission.

- Advocate stable funding for state cultural resources programs.
- Include representation from public and private sectors, and urban and rural areas with at least 50 percent of the members from the private cultural resources sector. Members should be selected equally by the Governor and the Legislature.
- Develop a vision and plan for a cooperative public and private strategy for the cultural resources sector, with identifiable perform-ance measures and a monitoring plan for state marketing programs and services within a year.
- Identify performance measures and monitor progress toward responsible protection, development, and marketing of cultural resources.

15 Revamp the Silver Hand program.

- Place under the Alaska State Council on the Arts.
- Staff the program with professionals who are knowledgeable of art and crafts, customs, and Alaska Native cultures to provide adequate advocacy and to determine authenticity.
- Enact legislation to promote authentic art and curtail counterfeit art through education and sanctions.

- Review and enact Department of Commerce and Economic Development's Alaska Native Arts and Crafts Task Force recom-mendations for legislation and funding. Increase Alaska Native involvement and consumer education.

- Develop a cooperative public/private marketing strategy.

16 Encourage use of available space in vacant or under-used public buildings for studios. The space can be used to network, train, meet, and pass on tradition and art to the next generations, and to sell arts and crafts.

17 Move the Alaska State Council on the Arts (ASCA) and the Silver Hand program to a cultural resources entity in the Department of Commerce and Economic Development, or the Governor's Office.

MARKETING ALASKA

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Forest Products Sector

Summary

Alaska's forest products industry has been an important part of the state's economy for decades. It is an industry based on a renewable resource that can continue to provide jobs and strengthen the state's economy in perpetuity, with proper encouragement and management.

The potential for growth in Alaska's forest products sector is great because a large portion of the annual allowable harvest, particularly in the Interior, awaits management. Furthermore, the markets for the type of timber growing in Alaska continue to strengthen. With an expanding world population, combined with expanding economies in the lesser developed countries, there will continue to be a demand for all natural resources, including timber.

During the 1980s and the early 1990s, the forest products industry provided about 3,500 well-paying jobs, averaging $43,000 per year. These wages and the property taxes paid by forest product companies and their employees contributed significantly to Alaska's local economies.

Alaska has promising potential for increasing the capacity and vertical integration of primary and secondary value added wood processing facilities. The enhancement and expansion of finished wood products manufacturing requires the construction of facilities that provide for the conversion of wood waste and low quality logs to produce electric power or other wood chip based products. Investment in secondary manufacturing facilities and new product lines would benefit from increased dry kiln capacity statewide, and the creation of a structural grade stamp and Alaska lumber inspection bureau. The state must commit to the goal of sustainable and stable harvest allocations from state lands and encourage and support a similar program on federal and private lands.

The state must be committed to a long-term forest management policy. Cooperation among major land owners, particularly in the Interior, will enhance value-added opportunities and return on investments.

A forest products information network would enable the industry — made up of diverse businesses (from logging companies to cabinet makers) that operate independently — to develop a reliable forest products data base, industry responses to government proposals and public interest initiatives, trade and product development opportunities, and legislative recommendations.

The greatest challenge facing Alaska's forest products industry is to grow and diversify in order to capitalize upon the opportunities offered by the expected increasing demand.

Recommendations

Top priority

1 Develop and maintain a consolidated inventory of Alaska's key natural resources, starting with forest resources, as an essential first step in improving management and development of state lands. Utilize the newest techniques available — Global Positioning Systems (GPS), Thematic Mapping (TM), and Geographic Information Systems (GIS) — to identify all resources by region. Seek federal and Native Corporation participation in expanding the inventory to meet regional economic planning needs.

2 Support expansion of local value-added processing including the critical utilization of low quality hardwood. This could be accomplished through the passage of the Governor's legislation to allow negotiated sales of state timber for value-added products.

Immediate action

3 Continue the process of petitioning the Congress to permit the state to establish incentives that will encourage the in-state processing of timber from timber sales on state lands. Once the statutory authority is in place:

- Use economic incentives and raw log export restrictions on a regional basis and timed to markets in order to develop timber manufacturing capability within the state.
- Consider a primary processing requirement on a percentage of the harvest for state timber sales.

4 Form partnerships between the public and private sectors to cooperatively work toward development and implementation of new and comprehensive management systems. The value-added legislation proposed by the Governor is an example of an approach encouraging this type of cooperation between public and private interests.

5 Establish an Alaska Grading Bureau to maintain standards for Alaska lumber products.

- Authorize program receipts and use a state-funded position to provide staff support, gradually privatizing the function over a five-year period.
- Appoint an industry-based board of directors to provide oversight and direction for the Alaska Grading Bureau.

6 Provide technical assistance to timber manufacturers and in market development for low-quality logs.

7 Review the Southeast Conference paper (study) prepared by C.L. Cheshire et. al, completed in 1991[3] (a feasibility analysis of manufactured value-added wood products in Southeastern Alaska) and update the spreadsheet.

8 Fill the full-time (vacant) forest products position in the Department of Commerce and Economic Development. No new appropriation is required. The recommended duties of the position would be to:

- Compile industry information and analyze how the actions of state government will affect the wood products industry.
- Provide objective analysis of policy decisions and the effects of proposed regulations on the timber industry. Represent the state's interests in administrative and legislative forums as they relate to the Forest Products Industry.
- Work with the Division of Forestry to solicit information about the industry on all lands and at all scales to compile a credible annual report that will serve to document the industry trends.
- Identify regional limitations, unfilled needs, and problems that impede the development and expansion of a high value-added wood products industry in Alaska. Design state strategies to realize opportunities.

- Support the development of a small business network to facilitate cooperative marketing, advertising, and technology transfers for numerous small businesses processing timber in Alaska.

9 Determine the range of regional industry needed to fully utilize a specific timber base and adopt a realistic plan for encouraging the development of that industry.

10 Facilitate information exchange at the community level about the scale, fiber requirements, and economic effects of proposed forest product facilities. Develop educational material for public use to address market size required and threshold levels for different types of products, i.e., medium density fiber board, lumber, chips, etc.

11 Provide accurate information to the public on regulations, legislation, current issues and forest product industry concerns.

12 Include timber industry images in the materials produced for Alaska tourism marketing and advertising.

13 Supply small mills with a stable log supply through a small business set aside program.

14 Support investments in research and development in order to utilize low grade saw logs and pulp logs for profitable value-added products.

15 Assist industry in identifying suitable sites where a regional dry kiln and cogeneration plant could serve small local operators economically; properly sited, such facilities could also utilize wastes from local mills and municipalities.

16 Assist with feasibility studies, site selection, and where appropriate the financing of the construction of a preservative treatment plant that would allow smaller operators to produce value-added products such as fence-posts, landscape timber, all-weather wood and railroad ties economically.

17 Direct the Board of Forestry to:

- Charge the Alaska Forestry's Working Group with acting as a scientific "clearinghouse" by facilitating university and peer critique of scientific studies in relation to the existing forest industry.
- Provide or coordinate pro-forma analysis of regulations and policies, including consideration of costs and benefits, regarding the forest industry.
- Formalize the Alaska Forestry and Fisheries Working Group as a subcommittee of the Board of Forestry. The working group has a good track record for evaluating and making recommendations about selected harvesting issues.

18 Commit adequate funding and personnel to the Board of Forestry to ensure that it can meet regularly to determine the effectiveness of the Forest Practices Act and recommend changes where appropriate.

19 Base Board of Forestry appointments on expertise and a commitment to problem solving.

20 Continue to improve on the current, systematic, peer-review assessment of the effectiveness of stream-side buffers and water quality protection standards as currently being conducted through the auspices of the Alaska Forestry and Fisheries Working Group.

21 Support existing and potential value-added industries to maximize the ways we are and can be utilizing our resources.

22 Develop a (forest products) strategy that has stakeholder support and a commitment by state government that can be sustained over multiple administrations.

Further dialogue needed

23 Review existing state programs and criteria to determine conventional and equity-financing programs, and equity partnerships.

24 Establish an equity shortfall guaranteed loan program to encourage private sector loans to qualified borrowers who are unable to meet the full equity requirements in fixed asset purchases, to a maximum of $250,000 per applicant. This program should utilize as far as possible existing programs such as the Alaska Industrial Development and Export Authority (AIDEA), as an umbrella, and be restricted to the use of Best Available Technology in the new or upgraded facilities.

25 Public policy must determine whether DNR regional plans will emphasize creating jobs or generating direct revenue to the state, or some combination of the two.

26 Establish a state policy for the management of insect and disease epidemics in Alaska's forests incorporating the following elements:

- Form an interdisciplinary multi-agency team to address relevant issues in a timely manner.
- Incorporate early public input for a full range of timber harvest management options in order to achieve a credible and possible-to-implement result.
- Timber harvests would move forward on an accelerated basis when it occurs on a state land base that is allocated to commercial timber harvest. The land manager will adjust future harvest activity to maintain sustained yield of the timber resource.

27 Develop a management and fiscal budget process that would permit long term, consistent funding of forest management programs (i.e., Reforestation Fund; area plans; sale development; environmental management).

28 Based on land use plans that provide for a variety of forest uses, determine the amount of state land to be dedicated to sustained-yield timber harvesting. Based on that determination, designate specific areas as timber harvest areas.

29 Lengthen review periods from five years to ten years for Area and Forest Management Plans to keep them focused on stated objectives. This will encourage predictability and reduce funding and staff needs by reducing the frequency of plan updates.

30 Initiate public dialogue about the purpose for, and the effect of, and the number of jobs maintained by, log export activities.

31 The Alaska Forest Products Commission should be established in the Department of Commerce and Economic Development with the following provisions:

- The commission should be modeled after the Alaska Minerals Commission, to consist of 11 (eleven) members with at least five years' experience in various aspects of the timber industry in Alaska.
- The state government and the state agencies must make available all pertinent information for the commission to effectively evaluate studies and to conduct basic cost benefit analysis of policies, regulations, and statutes.
- The commission should be legislatively established and be funded by a dedicated assessment on the industry.
- Coordination should be promoted between the Forestry Development Specialist and the Forest Products Commission. This position should be staffed for the Forest Products Commission.

Specific Projects for an Alaska Forest Products Commission:

a. Include the timber industry in the images of Alaska which are produced for tourism marketing and advertising.

b. Compile a database of existing public opinion polls and conduct an extensive new poll on consumer awareness of the economic and environmental significance of forest products, current environmental standards and regulations, current timber inventories, existing set-asides for wilderness and recreations, and general perceptions about the existence of the timber industry in Alaska.

32 The state and the Alaska Forest Products Industry must develop an effective and timely method of communication on critical issues.

33 Enact legislation to empower the Board of Forestry to establish, interpret, enforce and adjudicate regulations and their implementation.

34 Improve Forest Practices Act (FPA) procedures by:

a. Providing assistance to private landowners to ensure that their requests for FPA variations are timed to meet their harvest schedules.

b. Considering a separate fee requirement for short notice FPA variation requests.

c. Authorizing agencies to utilize the fees from variation requests as "Program Receipts."

d. Developing a list of private firms that could be utilized to perform FPA field inspections on a contractual basis.

35 Replace the $3 million of ASTF state funding for the Agriculture and Forestry Experiment Station (AFES) with state general funds. (This was the source of funding from Statehood to 1993. Territorial funding for the program began in 1917 and lasted until Statehood).

MARKETING

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Mining and Minerals Sector

Summary

The mining and minerals industry provided more than 3,000 annual, full-time equivalent jobs for Alaskans in 1991-94. The average, annual income for nonmanage-ment workers at large mines was more than $44,000. Alaska Department of Labor statistics for 1994 showed $777.5 million in total yearly earnings. Each mining job provides an economic incentive for 1.74 additional Alaska jobs. The state realizes more than $3 million, annually, from mineral revenues, exclusive of corporate income taxes.

There are approximately 51,000 mining claims and leases on public land in Alaska — 23,000 on state-owned minerals; 22,000 on federal-owned minerals; and 6,000 on state-selected, but not transferred, federal land. Between 400 and 450 applications to conduct mining-related work in Alaska are processed each year.

Industry, government, private geologists, and state scientists believe that Alaska has very good potential for the discovery of new world-class mines. Current and projected favorable metal prices are stabilizing operations at the Red Dog Mine, and are driving the reopening of the Greens Creek Mine in 1996-97. Construction of the Fort Knox Mine, combined with an exploration boom in the Fairbanks area, is good economic news for the Alaska mining sector.

The mineral industry and its investors make business decisions based on the likelihood that an investment will lead to a profit. Too often the decision has been made to defer rather than to pursue new mineral investment in Alaska. To change this, Alaska could take several steps.

First, Alaska must emphasize and demonstrate that it is "open for business." Prudent development of minerals is an important part of the state's long-term efforts to diversify its economy.

Second, Alaska must be willing to consider a wide variety of "partnerships" — including financial assistance through existing programs, such as those offered by the Alaska Industrial Development and Export Authority — that would lead to responsible mineral development.

Third, Alaska must improve its competitive position in a global minerals market, but only when environmental safeguards are built into mineral development projects.

Recommendations

Priority

1 Conduct a thorough evaluation into obtaining state primacy for the National Pollution Discharge Elimination System (NPDES) water discharge program. Complete a cost-benefit analysis which examines how additional staffing and funding requirements could be covered by public and private sources. Take steps to assume primacy if the analysis shows that the state, the industry, and the public would benefit and that the cost could be covered. The legislature and the administration could be asked to support the associated staffing and funding requirements for state primacy. Industry could be asked to contribute financially, potentially through emission and permit fees. Alaska's congressional delegation could be made aware of the needs and objectives, including potential funding assistance through the federal Clean Water Act reauthorization. (Please see the Mining and Minerals Sector Report for complete details on this recommendation.)

2 Determine and facilitate how minerals development projects can be developed in environmentally responsible and acceptable ways rather than why projects cannot be developed. (See Multiple Sector recommendations.)

Immediate Action

3 Ensure that airborne geophysical surveys continue at a sustainable and productive level throughout the next decade at a funding level of $500,000 per year.

4 Develop and include a balanced and scientifically based natural resource education curriculum within the state's school system.

5 Establish ad hoc industry-state task forces during the mine permitting processes in order to provide a cadre of people to conduct informational and educational seminars and question and answer sessions within the geographic area of the proposed mineral development.

6 Include mining related themes in tourism promotion. An initial focus could be the various Gold Rush Centennial celebrations.

7 Continue and strengthen the Arctic Mining Program within the University of Alaska system. Explore ways to adequately fund programs in the engineering, geological, and other scientific disciplines along with vocational programs which educate and train Alaskans to work in mining.

8 Emphasize in a promotional campaign the state's efforts to better coordinate mine permitting, give exploration credit incentives, and enter into creative partnerships with private owners of mineral properties and the mineral industry. Continue presence at U.S. and Canadian mining conventions and expand these efforts to include other mineral industry centers not currently targeted.

9 Evaluate long-term government and industry partnerships as a means of developing a general environmental information baseline for areas with high potential for mineral development. Priority lists, not unlike those used by the State of Alaska to fund municipal wastewater treatment needs, could be developed for the various priority resource data categories.

10 Expedite complex and controversial mine permitting decisions through partnerships between applicants and state and local permitting entities. Applicants frequently are prepared to fund expedited decisions at the federal, state and local government level. Approach federal agencies such as the Environmental Protection Agency, the Corps of Engineers, the U.S. Fish and Wildlife Service, and others to officially participate in cooperative, concurrent permitting through Memorandums of Understanding.

11 Use Best Available Control Technology (BACT) as a central theme in the compliance process. Use the BACT definition of "an emission, discharge, or other pollutant control limitation based on the maximum degree of reduction for each pollutant subject to regulation, taking into account energy, environmental and economic impacts, and the costs." Use standards that are measurable and enforceable.

12 Improve the state's ability to demonstrate a stable tax and regulatory climate by: (a) developing a fiscal plan to close the budget gap in an orderly fashion, and (b) assuring full public participation in the development of regulations and then providing a reasonable period of stability after adopting and implementing regulations.

Further Dialogue Needed

13 The state should develop a comprehensive Transportation Plan, including a component that would assure access to mineral properties using existing articles as RS 2477 and ANILCA Title XI.

14 Individual State of Alaska departments which have mine permit responsibilities should be directed to proactively review and where appropriate expand the use of general permits. The agencies most affected are the Departments of Environmental Conservation, Fish and Game, Natural Resources, and the Division of Governmental Coordination through the Coastal Zone Management Program.

MARKETING

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Marketing Alaska Seafood Sector

Summary

If Alaska were an independent country, it would rank among the top 10, world seafood producers — ahead of Canada, Norway, Iceland, and other well-known fishing nations. The more than five billion pounds of seafood harvested off Alaska represents more than half of all seafood harvested in the United States. In 1994, Alaska's seafood industry exported products valued at $1.2 billion, or roughly 50 percent of all products exported from Alaska that year.

The seafood industry is Alaska's largest private-sector employer, creating more than 35,000 full-time jobs and contributing more than $87 million in taxes and fees in fiscal year 1993. It is the second highest revenue producer to the state, after oil. Each year the industry pumps approximately $3 billion into the state's economy.

Though the commercial fishing industry has a statewide impact, it is overwhelmingly composed of small business operations. In some coastal communities, it provides in excess of 70 percent of all employment opportunities.

Unlike many of the world's fisheries, Alaska's fishery resources are healthy. Neither over-harvesting nor environmental problems are major threats to Alaska's fisheries. Recent international agreements will help control harvests of Alaskan fish on the high seas.

But despite healthy resources, the Alaska seafood industry faces troubled times because of changing world markets and overcapitalization. Increasing competition and supply, coupled with recessions in major markets and dependence on the increasingly glutted Japanese market, have led to sharp price declines for many species.

Recommendations

Top Priority

1 Continue the efforts to work with seafood industry to attract and establish year-round, professional jobs in the state.

2 Electronically consolidate (unified electronic information system) state, federal, and local government reporting requirements through a multi-agency effort, involving the Telecommunications Information Council as the coordinating agency. Install a centralized (electronic) permitting informational service at the Division of Governmental Coordination to help industry and individuals through state permitting processes which are complex and often transcend single agency requirements.

3 Establish working groups for (1) fishery management issues, (2) labor regulations, (3) environmental regulations, and (4) value-added proposals to expedite review and action on specific seafood sector recommendations. The working groups should report back to the governor and the executive committee by July 1, 1996 with their recommendations. (This recommendation is also included in a different form in the Multiple Sector section.)

4 Establish regional advisory committees to address commercial fisheries management and food quality issues. Work with and advise the Department of Fish and Game and the Alaska Board of Fisheries where and how food quality gains could occur by altering current management practices.

5 Improve coordination and delivery of vocational and professional education and training intended to prepare Alaskans for careers in the seafood industry. Plan education and training programs, in consultation with representatives from the seafood industry, so the skills and education provided match those in demand within the industry. Ensure that the programs of various agencies involved in education and training are complementary and do not duplicate one another.

6 Initiate a state-directed, high priority effort with seafood industry participation to develop a pin bone removal machine for the seafood processing industry involving a state reward for the first company to perfect the technology, grants from processors to the company that agrees to work on the project, and a highly publicized Alaska Science and Technology Foundation request for proposals.

Immediate Action

7 Take specific steps to attract venture capital into Alaska's seafood industry. Host a Venture Capital Fair in 1996 or early 1997. Include several industries in the fair, not just the seafood industry.

8 Investigate the issue of herring roe utilization including an in-depth definition of the term "utilization" in regard to seafood. Definition of this term would include an economic as well as biological impact analysis and would be used in adoption of state policy on this issue.

9 Coordinate a "Seafood Industry Week" of agency and industry meetings in Juneau during the legislative session in order to enable industry, state agencies, and legislators to communicate and work together more effectively to maximize the value of the seafood resource to Alaska residents.

10 Officially recognize and support the DEC Seafood Advisory Task Force. Add subcommittees to address air and water quality issues.

11 Improve or create mechanisms for coordinating seafood research efforts by:

- Designating a contact person at the University of Alaska.
- Surveying operators to identify research interests.
- Holding regular meetings organized by the University of Alaska System and the Alaska Department of Education, between upper level and middle level university administrators, university researchers, university policy analysts, state agencies and seafood industry participants, including harvesters and processors.

12 Allocate substantial funding from the Alaska Science and Technology Foundation for research and development relating to the seafood industry and for organizations which can develop new seafood products in Alaska; make funds available to such programs as the Alaska Fisheries Development Foundation and the Fisheries Industrial Technology Center.

13 Review the UA policy relating to overhead charges to become more competitive with other research entities.

14 Encourage the departments to propose innovative solutions to funding the necessary survey and management proposals. This may involve agreements and joint ventures with the private sector. Some of the innovative means may require legislative changes to allow the agencies to receive or direct the allocation of funds received or offered by private industry. (Also see Multiple Sector recommendations.)

Further Dialogue Needed

15 Congress is currently considering reforms in shipping laws that could greatly benefit the Alaska seafood industry. Current antitrust transport laws permit shipping companies to fix high prices for the international transport of Alaska seafood. Because many of the shipping companies involved in the transport of Alaska seafood are foreign-owned, high transport costs increase their profit margin and reduce the amount to be expended on fish purchases. The Administration should work with our Congressional delegation in supporting reforms in the shipping laws which now permit artificially high transport costs.

16 The federal by-pass mail program which subsidizes air freight to remote areas of Alaska is an example of how the government can work with industry to overcome the uniquely high costs of living and working in bush Alaska. The Administration should work with our Congressional delegation and the Alaska air freight industry to amend this program so that seafood shipped on return trips of by-pass mail flights are charged the same by-pass mail rate.

17 Encourage the Alaska Legislature to provide adequate funding and program receipt authority to the resource agencies to perform the constitutionally-mandated duties regarding management of the common property resources.

18 Support adequate agency budgets to maximize seafood resource value and permit growth of industry.

19 Implement surgical tax credit program specifically targeted as an incentive for processors to purchase value-added processing equipment and cold storage capacity. The tax credit program would grant raw fish tax credits equal to 50 percent of the expenditure on equipment that will increase value-added capacity. A cap on tax credits granted could be included in this package.

20 Form a working group -- including industry, municipalities, and the administration -- to review and develop a multi-tiered tax formula to promote value-added production. For example, higher rates of taxation would occur for a dressed or round product than a further processed, filleted product. Fully processed products like nuggets, patties, smoked products, etc., would pay the least fisheries business tax.

Note: Consideration should also be given to the effect on revenue sharing to the municipalities and the relationship of the Fisheries Business Tax to the Landing Tax recently enacted.

21 Although there are many impediments to value-added production in Alaska, the lack of cold storage capacity must be overcome if such an industry is to develop. Concurrently, a number of other issues must also be resolved. These include the creation of an economic environment that encourages value-added production in Alaska, such as implementation of a graduated tax structure that rewards those who add value to their products in Alaska. We have the following recommendations:

- The state should make available low interest loans for construction of public and/or private cold storage facilities. It should also make available through AIDEA or other appropriate loan funds more favorable long-term initial deferred payment periods when substantial equity investment is made available by the borrower.
- Municipalities, on their own or in partnership with the private sector, should be encouraged to investigate the formation of public or quasi-public corporations to construct and/or operate cold storages.

22 Develop grading standard reference materials for all fresh and frozen seafood products harvested in Alaska waters in order to provide stability and growth in Alaska's seafood industry.

23 Monitor the use of the name "Alaska" as part of business names in an effort to protect the image of the state and its resources.

24 The Alaska seafood industry, through ASMI, should participate with farmed salmon and other generic seafood groups to increase consumption of Alaska seafood.

25 Recognize ASMI as critical to the marketing of Alaska seafood. Strongly support its important role in the state budget.

26 Support efforts to revise the Jones Act provisions dealing with workers compensation. Representatives of several industries being negatively affected by ballooning Jones Act claims (including seafood companies operating in the North Pacific) are working through federal channels to modify the Act to provide some measure of protection against fraudulent workers compensation claims. The State of Alaska's support in these efforts would be viewed as very valuable by those companies and individuals involved in this effort, and would help to assure the future viability of an effective seafood harvesting sector in the North Pacific.

27 Review the section of the Wage and Hours Code pertaining to supervisory capacity (AS 23.10.060) to modify or eliminate the provision that an employee must be classified as hourly if they spend 20 percent or more of their time performing production-related activities.

28 Classify the seafood industry (including the harvesting, processing, and transport segments) as a part of the agricultural sector for the purposes of the Alaska Wage and Hour Act. The Alaska Code of Regulations contains specific exemptions for the agricultural industry that provides members of that sector with the flexibility to accommodate the harvest and processing of natural commodities on an unpredictable schedule. This change would provide the flexibility needed, but also be consistent with the trend in other states and the national regulatory level to view seafood production as part of agriculture.

29 Adopt the federal employee housing minimum of 50 sq. ft./ employee for the State of Alaska, and develop a schedule of even lower space requirements for highly seasonal housing facilities that may only be occupied a few weeks of the year.

30 Accredit state inspectors to carry out that portion of the industrial safety inspections now being conducted by federal inspectors.

31 Shift the overall approach of the agencies involved in work place safety from adversarial to a partnership with concerned employers. The availability of inspectors for voluntary consultative safety inspections should be increased, and this method of achieving compliance stressed over the current policing strategy. Punitive fines need to be de-emphasized while creative and cost-effective ways of improving worker safety are developed and tested (i.e., the Federal Vessel Protection Program currently being tested in the off-shore fleet.)

32 Subject new work place safety requirements to a risk/benefit analysis before being mandated.

33 Reopen and amend the state's newly-adopted air quality regulations to conform more closely with the federal template, allowing the state to exercise permitting flexibility. Programs for de minimus thresholds, insignificant exemptions, and excess emission allowances should be incorporated into revised regulations. The application of ambient air standards to existing individual sources and the requirements for existing sources to conduct expensive modeling to show compliance should be excluded from the regulations.

34 Initiate action for reclassifying remote areas dependent upon diesel fuel-fire/internal combustion engines for power generation from "Class II" to "Class III." State regulations allow for this determination. A special project's allocation of funds should be obtained by the Department of Environmental Conservation to identify qualifying areas and develop the necessary information for reclassification.

35 Treat subsurface seafood waste piles much the same as surface landfills. Almost all cities, villages, and many industries in Alaska dispose of waste on land. Subsurface disposal of seafood waste is usually at great depth and avoids many of the problems associated with surface land disposal. The Department of Environmental Conservation should work with industry, affected communities, and environmental organizations to develop approval criteria for larger zones of deposit. Criteria that should be considered for larger zones should include: depth of waste pile, size of waste particles, total acreage of the receiving water body, and effects on subsistence, commercial, and recreational aquatic life in the waterbody.

36 Develop evaluation criteria that gauges the effect of dissolved oxygen depressions. Depressions that appear to be temporary and which may have other contributing factors should be considered of reduced significance.

37 Work with the federal government to allow for exceeding the sanitary waste treatment system limits in remote areas for seafood production facilities in communities with populations of less that one thousand.

MARKETING

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Marketing Alaska

Small Business Sector

Summary

Small businesses play a significant role in Alaska's economy. Based on the SBA definition of a "small business," over 99 percent of Alaska's businesses are small businesses. Of the busi-nesses employing less than 100 people, over 65 percent have one to four employees. In Alaska, small business provides over 70 percent of the private sector jobs. Small businesses are the largest employers of minorities, women, and youth. The State of Alaska boasts the highest per capita percentage of women-owned businesses in the nation.

Despite the challenges involved in establishing small firms, small businesses are expected to continue to grow and make major contributions in terms of job creation, innovation, and empowerment.

Traditionally, small businesses have contributed more than their share to innovation and technological advance. More important, they have often played a unique role not only in developing technologies, but also in developing and exploiting unrealized market opport-unities for those technologies, and, by combining the two, in laying the groundwork for new industries.

While impressive in their accomplishments, small businesses do not constitute a homogene-ous category that can be dealt with in a "one type fits all" fashion by the private sector or by public policy.

Important public policy issues center on the extent to which the State of Alaska will take steps to ensure that small businesses not only survive, but flourish. In addition adopting and maintaining positive programs that encourage and assist small business and entrepreneur-ship, government should also take aggressive steps to assemble information systems for mon-itoring small firms and analyzing the laws, regulations, and programs that may affect them.

Recommendations

Top Priority

1 Establish two task forces for comprehensive evaluations of the state's loan programs and small business assistance programs. The Small Business Assistance Programs Evaluation Task Force — with a membership made up of at least half small business representatives — should, by April 30, 1996, establish evaluation tools and begin a process to regularly evaluate the effectiveness of all state operated and funded small business assistance programs. The State Loan Program Evaluation Task Force should be comprised of representatives from state loan programs, the banking industry, and small business. Both groups should examine their respective programs in order to:

(A) Assess current needs
(B) Review for effectiveness, duplication, consolidation, elimination, and/or privatization
(C) Develop products/services to meet identified needs
(D) Evaluate performance

2 Ensure adequate marketing of state loan and business assistance programs.

3 Develop and implement customer service training for all state em ployees complete with an evaluation process to ensure its effectiveness. (Also see Multiple Sector recommendations)

Immediate Action

4 Maximize coordination between and among all small business and economic development programs regardless of where they are located. The commissioner of Commerce and Economic Development and the commissioner of Community and Regional Affairs should establish a collaborative direction in economic development.

5 Ensure that state-funded business and financial assistance programs remain sensitive to the needs of rural Alaska.

6 Adopt and implement — as a state minimum level of competency — the critical skills, attitudes and values for success developed by Alaska's Youth Ready for Work committee so that students are ready to enter the work force upon completion of high school.

7 Implement the work program identified by the Alaska Human Resources Investment Council (AHRIC), specifically the following two tasks:

- Establish a corps of private industry employers to speak directly to individual school districts to foster and promote teaching the essential ready-to-work skills. This corps would also give presentations to students in schools to articulate what skills, knowledge and attitude requirements are necessary to enter the work place. Presentations could be given to business groups such as Chambers of Commerce, Rotary, and professional organizations expressing the need for business involvement in school board meetings and meetings with educators.

- Encourage other employers to provide work experiences in their companies through options such as job shadowing, apprenticeships, internships, on-the-job training, and cooperative work experience.

8 Continue the University of Alaska's vocational and job training mission and programs appropriate for each region of the state. Provide continuing support for Department of Labor economic and employment surveys that are essential to develop university job training courses that quickly meet Alaskan employer needs.

9 Support economic and employment surveys that meet the needs of Alaska's employers.

10 Survey businesses representing Alaska's top ten industry classifications to determine their human resource educational and skill needs today and by the year 2005. Use survey results to set funding priorities for educational institutions and training programs. (The sector strongly recommends that AHRIC submit an annual report to the Governor, Legislature and the general public.)

11 Develop state regulatory compliance programs that are based on private and public sector partnerships. Deliver technical assistance services to small businesses, involving workshops and outreach programs, to help business people understand the permitting process and the reasons for various regulations.

Further Dialogue Needed

12 Establish a Small Business 42 Advocate position to:

- Assist small businesses through difficulties they may be having in dealing with a state agency.
- Serve as a resource for regulatory information regarding any and all state agencies and review proposed regulations for duplication and potential conflict with existing regulations, (include providing a "road map" through the permitting process when permits involve more than one agency).
- Disseminate clear and understandable regulatory information regarding proposed and existing regulations.
- Provide information on new and existing markets.

13 Create a method for systematic review of existing regulations. Conduct the review by teams with members from the business community, consumer advocacy organizations, and regulatory agencies. Establish a time line for recommending specific regulations for repeal or revision.

14 Prepare a Draft Regulation List to be circulated to small businesses, the public, and state agencies on a monthly basis. Include on the list current proposed draft regulations, the involved agencies, the descriptive title, and dates of upcoming hearings. Use the statewide Chamber of Commerce network for dissemination of this information directly to the small business community.

15 Continue the administration of the ARDOR program to require annual ARDOR scope of works include specific outcome measures (addressing both short and long term goals and objectives); budgets which tie directly to performance of the scope of work; funding disbursed based on performance; and an annual evaluation process. Establish job qualifications for ARDOR executive directors and set guidelines for ARDOR board selection and qualifications.

Marketing Alaska

Technical Services Sector

Summary

The total technical services sector currently employs 45,000 to 50,000 people and contributes a payroll that approaches $2 billion, based on information in the "Alaska Economy Performance Report 1994." This sector accounts for 20 percent of Alaska's workers in high-paying and highly-skilled positions.

The technical services sector includes well-developed industries such as the oil and gas service industry, environmental services, telecommunications, transportation and logistics, and architectural, engineering and construction. It also includes formative industries such as information services, education and training, and science and research.

Many of the businesses in Alaska's well-developed technical services gained their skills by responding to a demand for resource and public infrastructure development throughout the state. Because of regulatory, environmental, and logistical requirements, a high level of technology is needed to guarantee quality, reliability, and serviceability. This group now looks to basic industries such as oil and gas, mining, timber, public infrastructure development, and manufacturing to sustain itself.

Technical services industries that are in the formative stage are represented by new companies and institutions seeking to diversify and broaden Alaska's economy. They are in the start-up phase of defining themselves and their niche in the economy.

The technical services sector offers two distinct areas for business growth: (1) In-state opportunities which arise from capital investments in industrial activities and infrastructure. (2) Overseas opportunities to which Alaska employers must aggressively and persistently market their services.

Recommendations

Top Priority

1 Develop a comprehensive international marketing program by August 30, 1996, that promotes Alaska's transportation and logistics expertise for remote and northern climate resource development, air cargo based international warehousing, off-road surface transport, and intercoastal marine transport.

2 Establish a public relations/media strategy to promote Alaskan success stories into packaged stories for national/international publications and for talking points for the Governor and commissioners. Strategy should include all technical services subsectors.

Immediate Action

3 Prepare and publicize inventory of available technical services expertise and technologies. (Listing of technical services sectors) Enhance marketing efforts by highlighting up-to-date tools, and a competent labor force with a "can-do" attitude.

4 Educate federal officials about Alaska's unique transportation and logistical situation in order to develop federal legislation that is more sensitive to Alaska's unique conditions. Meet with federal officials regularly and organize in-state trips that illustrate the unique needs of transportation in Alaska.

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5 Assist small to medium technical services businesses with information on export opportunities, export practices and financial assistance programs. Conduct seminars on financial assistance programs.

6 Develop a preferential service and pricing structure for Alaska firms wishing to utilize the University of Alaska's Cray Supercomputer, and market this advantage to both in-state software companies and potential relocation candidates.

7 Evaluate the expansion of UAF's graduate degree program in computer science to the UAA campus.

8 Support the Alaska Regional Development Organizations (ARDORs) in marketing their regions to information technology companies that are interested in relocating their operations.

9 Use Alaska fund management firms, whenever possible, to manage state funds.

10 Promote in-state investment services expertise to overcome an Alaskan tendency to discount the expertise and capabilities of in-state funds management firms.

11 Encourage federal/state and private firms to use Alaska businesses through programs such as Buy Alaska, procurement preference and local hire.

12 Complete the revisions to the portion of the Alaska Administrative Code that governs leasing policy at state airports in order to improve opportunities for Alaska transportation and logistical service providers.

13 Establish an Alaska Technology Incubator based on the successful Austin, Texas model. This would be a multi-agency effort supported by the University of Alaska, ASTF, and private, non-profit economic development organizations.

14 Develop a matrix to identify information on the capacity and capability of the existing Educational and Training Services sector.

15 Include semiconductor and flat panel display manufacturing industry as a component of the state's overall marketing strategy.

16 Aggressively promote international trade opportunities for Alaska technical services:

- Schedule and lead trade missions to high potential markets, based upon broad-based private sector input. Coordinate all state-funded trade missions to ensure that appropriate state officials are present. Contract out the arrangements for the mission. Possible actions include:

    a. Lead oil and gas support services industry on 1996 trade missions to Sakhalin, Timan Pechora, and PRC.

    b. Sponsor and coordinate Alaska architects/engineers and contractors trade missions.

- Take higher profile at international trade events and bring more international trade events to Alaska. Could expand to include other industries.

- Ensure that the aerial mapping, surveying, and geographic information services industry is fully supported by Alaska's overseas marketing programs.

- Include Alaska computer hardware vendors and systems consultants in Alaska's market development programs aimed at developing markets in Russia, China, and other developing Asian countries.

17 Clarify the Division of Trade and Development's mission regarding trade and protocol in order to maintain focus on international market development.

18 Designate a lead agency among the agencies dealing in international trade to coordinate:

- Information sharing among state, federal, and quasi-public agencies regarding international trade opportunities and economic development strategies.

- Information clearing/dissemination for all state-funded or state-sponsored trade missions and trade promotion events, including legislative missions.

- Trade missions and official communications with Senior Protocol Official.

19 The Division of Trade and Development should designate an individual to coordinate business development duties for the Technical Services sector. This would not be a new position, but instead, would be a designated responsibility for a current staff position to fulfill.

20 Stabilize the management of the Division of Trade and Development with qualified career potentials to give it continuity. Continue to fulfill division work functions through a contractual basis with clear and specific performance goals. Renewal of the contracts would be tied to past performance.

21 Explore the benefits of contracting out those state functions associated with marketing of technical services that could be done more effectively and efficiently through contracts. Areas to consider are preparation of publications, organizing trade missions and trade-related events, and providing trade assistance. The state should identify and focus on those aspects of furthering business development that must and can only be accomplished by the State of Alaska. This will include maintaining government-to-government relationships and agreements such as the Sakhalin/ Alaska Agreement for the oil and gas service subsector.

Further Dialogue Needed

22 Continue efforts to establish economically-viable ship repair facilities in Alaska to provide long-term jobs and income. Assist in industry efforts to market shipyard services.

23 Identify areas of common jurisdiction with the federal government where the coordination of administrative requirements can reduce transportation costs.

24 Support industry (oil and gas support services) marketing, permitting, and other efforts when the North Slope oil export ban is lifted in order to facilitate construction and operation of an export pipeline and marine transportation system.

25 Continue to work pro-actively with resource developers to encourage the inflow of investment capital in new and marginal oil and gas fields.

26 Establish a subchapter or an organization similar to the Pacific Telecommunications Council.

27 Provide leadership and support for the formation of a dynamic Alaska Software Association. Such an association would provide the networking and professional stimulus needed to overcome the sense of remoteness that Alaskan employers sometimes experience in relation to their counterparts in larger markets.

28 Strongly support the creation of a venture financing mechanism for information technology services that blends public and private capital, includes strong expertise in the evaluation of information technology funding proposals, and brings together the support resources necessary for those receiving venture financing to succeed as viable business entities. Fully fund the Alaska Science and Technology Foundation's BIDCO initiative. Direct the initiative toward meeting information technology needs throughout the state.

29 Through the Northern Forum and other appropriate entities, continue the promotion of the Northern Sea Route. More specific actions may be identified following the completion of U.S. Army Corps of Engineers studies.

30 Improve opportunities available to the in-state market for transportation and logistical services providers. This effort includes the development of remote state and federal lands, the state's assumption of federal fire fighting activities, reduction of the state's aircraft fleet, and expansion of the state's existing transportation network. Revisions to the portion of the Alaska Administrative Code that governs leasing policy at state airports should be completed.

31 Broaden information access for education and training services businesses to information on federal procurement services.

32 Establish a task force to determine what state government educational and training services can be out-sourced. The state government, as well as federal and local, has a need for technical skills and training services on a wide variety of technical issues.

33 Strengthen coordination of public and private agencies programs in order to make information available and identify who could utilize Alaska educational and training services firms. A summit could be organized involving agencies such as the Division of Trade and Development, the Alaska Center for International Business, the American Russian Center, the Department of Community and Regional Affairs, the World Trade Center Alaska, the Alaska Industrial Development and Export Authority, the U.S. Department of Commerce, the U.S. Small Business Administration, the Northern Forum, and others.

34 Leverage state/federal agencies to make international trade opportunities within the state more accessible to the general public. A bulletin board system, such as the Washington State Market Place system, has worked well in most cases.

35 Establish a Senior Protocol Position within the Office of the Governor in Juneau. A senior protocol position should be established reporting directly to the Governor. This position should be filled with an individual experienced in matters of state. Responsibilities should include:

- Create and monitor balanced relationships between natural and potential trading partners.
- Establish routine and well-scheduled approach toward communications with local diplomatic corps and for meeting with and recognizing visiting foreign dignitaries.
- Monitor and coordinate implementation of international agreements.
- Orchestrate appropriate of staff-level working relationships with trading partners and protocol counterparts.
- Prepare annual proclamations for signature by the Governor recognizing and/or honoring International Trade Week, foreign official diplomats assigned to Alaska, and Honorary Consuls of Alaska's foreign market partners.

36 Develop information sharing strategies among agencies dealing in international trade by designating a lead state agency, co-locating all trade agencies, and designating a nonexempt director.

The Commissioner of Commerce and Economic Development should co-locate the state's lead agency with other publicly supported organizations which deal with export development. Three publicly-supported organizations in Alaska have export development as a principal element of their mission statement:

a. Division of Trade and Development
b. World Trade Center Alaska
c. Commercial Service of U.S. Department of Commerce

Businesses seeking assistance in exporting their services and technology to markets abroad should be offered "one-stop" convenience. The nucleus for that convenience already exists with the World Trade Center and U.S. Commercial Service sharing office space. Common usage of office equipment, elimination of duplicate subscriptions to trade publications and trade library materials, coupled with a lower lease rate will reduce operational costs of the State of Alaska. The state's lead agency should relocate to the downtown Anchorage location currently housing the U.S. Commercial Service, the World Trade Center, and other international entities in order to support information sharing among agencies and information collection and dissemination to this sector.

MARKETING ALASKA

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Marketing Alaska
Tourism Sector

Summary

Each year tourism proves to be an increasingly important sector of the Alaska economy as visitors come from around the world to experience our natural and scenic attractions.

Visitor dollars and visitor industry expenditures flowing into Alaskan communities create employment and entrepreneurial opportunities for Alaskans and directly employ 27,000 people in full- and part-time positions. Eighty-four percent of these employees are Alaska residents. As one of Alaska's steady growth industries, tourism will play a major role in diversifying the economy. In 1995, more than 1.2 million people visited Alaska, generating over $700 million to the state's economy.

Continued growth in the visitor industry will demand the improvement of existing infrastructure and additional education and training for Alaskans. Agencies providing visitor services such as parks, roads, and ferries will need healthy budgets for tourism to stay successful. With many of Alaska's natural and cultural attractions on lands managed by the federal government, the role of federal agencies is crucial. The film industry also has similar needs in order to reach its potential.

Alaska is in a heated competition with domestic and international destinations who outspend Alaska by a large margin. Additionally, the state has made radical cuts in budget items that affect the visitor industry, such as tourism marketing, state park operations, museums, and transportation system maintenance.

Recommendations

Top Priority

1 Implement rural tourism development and marketing strategies that assist rural communities and residents in understanding the challenges and ramifications as well as realizing the potential of tourism in their communities. Strategies include the following:

a. Use the newly-established Rural Tourism Center, a joint venture of the Division of Tourism and Alaska Village Initiatives, as a one-stop resource for rural Alaskans interested in developing and expanding tourism products.

b. Identify and develop target markets to meet rural tourism development needs.

c. Develop incentives for companies established in the visitor industry to partner with and mentor rural tour operators. Such incentives may include development and training grants, tax credits, and access to capital. Build upon existing visitor pipelines and marketing efforts to give the new tour products developed will have a better chance of viability.

d. Publish and distribute pamphlets and handbooks about such topics as guiding, starting a lodge, operating bed and breakfasts, regulatory and permitting concerns, respect for the land and environment, working with trade associations, preserving native culture, etc.

e. Disseminate information about successful marketing strategies and market research (including Alaska Visitor Survey Program and Alaska Tourism Marketing Council research) to a wide audience.

f. Assist small and rural tourism operators in gaining knowledge of new marketing technologies, including Internet access and on-line commerce.

g. Participate in community and regional strategic planning efforts to include tourism components, identify infrastructure needs, and create awareness of highway and community beautification and its benefits. Involve the Alaska Regional Development Organizations (ARDORs), which are focusing efforts on infrastructure needs for tourism this year.

2 Explore more promotional opportunities that leverage private sector partnerships and cooperatives, such as the Alaska Gold Rush Centennial efforts and the Ton of Gold Trade Show.

3 Foster development and maintenance of appropriate tourism infrastructure, in partnership with federal agencies and the private sector, by:

a. Providing agency assistance and support for the Governor's Transportation Initiative which seeks to develop an maintain Alaska's transportation infrastructure.

b. Developing an overall state park system plan for new park and recreation areas, needed facilities development, and economic strategies for quality operations and maintenance.

c. Continuing the emphasis on developing the Governor's Trails and Recreation Access for Alaska (TRAAK) program.

d. Participating in a comprehensive plan for tourism as a means of identifying new and improved infrastructure needs. The plan would be developed using a public process that involves all stakeholders and looks at the desired future condition of tourism in Alaska. In addition to infrastructure needs, the plan would identify public/private partnerships, create an efficient permitting process, consider sustainability, and create year-round jobs for Alaskans.

4 Work for the creation of federal legislation that provides a stable source of funding for supporting state programs to manage and develop wildlife viewing opportunities and wildlife-related outdoor recreation and tourism. This legislation should be modeled on the successful programs already in effect for federal aid in sport fishing and hunting, should be compatible with Alaska's social conditions and cultures, and should protect Alaska's rural residents from fiscal hardship.

5 Give continued priority to upgrading the state's transportation system by ensuring that federal transportation funding continues at a level commensurate with the state's needs.

Immediate Action

6 Use the newly-chartered Alaska Land Managers Forum as a mechanism for cooperative problem-solving on multijurisdictional tourism and land management issues. This cooperative process can lead to public/private partnerships in developing and maintaining recreation and tourism facilities.

7 Establish a Tourism Coordinating Council for in-state coordination of agencies providing tourism-related programs and activities. Assign a permanent position in the Division of Tourism as staff to the council.

8 Place more effort on tourism planning and development and create mechanisms to ensure that marketing and development are coordinated. Coordinate the development of appropriate tourism infrastructure considered by state and federal agencies and work with local communities to look for infrastructure opportunities in Alaska.

9 Prepare a comprehensive strategic plan for tourism using a public process that looks at the desired future condition of tourism in Alaska. The plan would then develop infrastructure and marketing programs needed to provide visitors with an enjoyable visit, provide jobs for Alaskans, improve the quality of life and the environment for Alaskans. The plan should:

a. address all the recommendations of this report;

b. create opportunities for public/private partnerships;

c. make appropriate infrastructure development and maintenance a priority -- Alaska Visitor Association's recent, long-term planning study, Destination Alaska, is good starting point;

d. inventory existing management plans regarding tourism policies and potential sites for tourism infrastructure development;

e. inventory exiting visitor facilities on public lands, and then assess what facilities are needed in what locations, the impacts of such facilities, and who should provide them;

f. improve appropriate access to public lands by considering tourism in land use planning and decision making, while ensuring sustainability of the land, wildlife and scenic resources upon which tourism is based;

g. include an effective and efficient permit process, perhaps using technology, to make land use permitting consistent, accessible, and timely;

h. maximize year round industry opportunities and, thus, year-round jobs; and

i. coordinate the planning activities of all land managers to provide a wide range of visitor opportunities.

10 Create project-specific teams involving all the stakeholders to work on regional, community, and site-specific tourism planning and development ventures.

11 Maximize existing tourism-marketing revenue sources by making services more appealing to small tourism businesses who currently do not participate. Recognize in-kind financial support to the marketing program as matching contributions to state funds.

12 Solicit additional support from the tourism sector for in-kind contributions of products to sponsor film-related familiarization trips to Alaska for key producers, directors and decision makers from Hollywood. Encourage governor and DCED commissioner to participate in these programs.

13 Create and publish a film industry permit procedures booklet.

14 Delineate the duties of the Division of Tourism and the ATMC including a review of the effectness of generic and targeted marketing.

15 Negotiate contracts for the management of the state park clusters (two or more facilities) that would be economically viable for private enterprise. This would provide the Division of Parks, within the constraints of its current budget, with the management flexibility needed to respond to new and increasingly-popular areas.

16 Assist organizations that coordinate visitor industry educational and training offerings around the state. Develop and circulate a tourism curriculum for use in schools, and spread the word about existing visitor industry training programs.

17 Establish a tourism entrepreneurship program that addresses marketing strategies, raising capital on a shoestring, and innovative solutions to the problems of operating small businesses.

18 Develop awareness programs to accurately educate the public, the Legislature and the visitor industry about tourism. Content should include information about how the visitor industry contributes to the economy of Alaska, how the state's tourism marketing programs work, and how to maximize the benefits of tourism and minimize its impacts on Alaska and Alaskans.

19 Educate the Alaska public and Legislature about film production and its economic impact and job opportunities on a statewide, year-round basis. Provide opportunities for legislators to be on location, and for representatives from the film companies visiting Alaska to speak to legislative committees.

Further Dialogue Needed

20 Work with Alaska's Congressional Delegation to support funding for public land facilities identified through the proposed comprehensive plan and having fees collected on Alaska's federal park lands returned to support those areas.

21 Consider reducing or waiving static lands permit fees for minimum impact on film productions as an incentive to lure more projects to Alaska.

22 Provide complimentary or reduced fees on state-owned transportation; i.e., marine highway, state automobiles, railroad, and aircraft during location scouting and production.

23 Develop stable funding sources for tourism marketing, in consultation with the visitor industry, and forward it to the Legislature. One option is a broad-based, equitable tax that is simple to implement and phased in over a reasonable amount of time. Any tax must be carefully structured so that it affects all segments of Alaska's tourism industry equitably. This is a controversial issue since some segments of the visitor industry want the tax to be constitutionally dedicated to tourism marketing. Another taxing option that was not unanimously supported is a seasonal sales tax, with the amounts not directly attributed to visitor spending utilized for general revenue sharing with communities.

24 Reinstate a tourism/small business loan program.

25 Provide low-interest loans for xfilm and video-related equipment, i.e., lights, cyclic generators, cables, etc. and facilities such as photo labs and sound stages.

26 Develop a program for stable funding to facilitate long-range planning, construction, and maintenance of the state's tourism-related infra-structure. This can be accomplished by increasing the motor fuel tax (gas tax) and designating the proceeds for funding road maintenance, including roadside pull-outs with such amenities as sanitation facilities and signage. Other sources of revenue that the group discussed but did not reach a consensus included higher park user fees, a seasonal income tax, higher marine highway rider fees in the summer, higher nonresident hunting and fishing license fees (contro-versial), and a state lottery (controversial).

27 Explore tort reform limiting liability insurance rates for guides and outfitters, and other rural tourism providers.

28 Review Alaska's wage and hour laws as they apply to small rural operators. Possible solutions may be found in other state's wage and hour laws. For example, Colorado has developed a body of wage and hour laws called Camp Law.

MARKETING

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